ECONOMIC SURVEY OF EUROPE IN 1973

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The European Economy in 1973

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UNITED NATIONS

ECONOMIC SURVEY
OF EUROPE IN 1973

THE EUROPEAN ECONOMY IN 1973

Prepared by the

SECRETARIAT OF THE
ECONOMIC COMMISSION FOR EUROPE
GENEVA

NEW YORK, 1974

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Preface

The present SURVEY is the twenty-seventh in a series of reports prepared by the secretariat of the Economic Commission for Europe to serve the needs of the Commission and to help in reporting on world economic conditions—a task which the Economic and Social Council of the United Nations has entrusted to the Department of Economic and Social Affairs.

This SURVEY is published on the responsibility of the secretariat, and the views expressed in it should not be attributed to the Commission or to its participating governments.

EXPLANATORY NOTES

The following symbols have been used throughout this SURVEY:

.. = not available or not pertinent;

— = nil or negligible;

* = estimate by the secretariat of the Economic Commission for Europe.

In referring to combinations of years, the use of an oblique stroke—e.g. 1969/70 signifies a twelve-month period (say from 1 July 1969 to 30 June 1970). The use of a hyphen—e.g. 1968-1970—normally signifies either an average of, or a total for, the full period of calendar years covered (including the end-years indicated).

Unless the contrary is stated, the standard unit of weight used throughout is the metric ton. The definition "billion" used throughout is one thousand million. Minor discrepancies in totals and percentages are due to rounding.

References in tables or charts to the OECD (Organisation for Economic Co-operation and Development) refer to the west European members of that organization.

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INTRODUCTION

In 1973, *economic growth* both in eastern and in western Europe was significantly faster than in the two preceding years. Trade between east and west also increased at a fast rate. However, following the exceptionally rapid expansion in the early months of 1973 there was a fairly widespread tendency for growth in western Europe to slow down in the second half of the year, partly because of bottlenecks and capacity limitations in some sectors but partly as a consequence of policy measures, the main aim of which was to moderate the rate of inflation. Thus even before the recent sharp increase in oil prices the prospects were for a marked slow-down in western Europe's growth in the current year: from almost 6 per cent in 1973 to some 4½ per cent in 1974. The addition of the demand reducing impact of the rise in oil prices could push the growth rate a good deal further down.

At present there is considerable uncertainty concerning the future level of oil prices. This uncertainty is itself also likely to have a dampening effect on demand, at least in the short run, through its impact on investment intentions and consumers' confidence. Short-term forecasts are more than usually uncertain but it would seem likely that on average growth will tend to be below capacity utilization in several countries in 1974. The slow-down may differ considerably between sectors: the threatened shortage of oil has already had a significant impact on the automobile industry. At the same time, capacity limitations and supply bottlenecks could continue in other sectors. There is also a fair chance that in some countries the economic activity, sustained by an expansion in capital goods industries, will pick up in the second half of the year. The policy approach required in such a situation would need to be rather selective. Taking a wait-and-see attitude with regard to the need for reflationary actions, most west European governments seem to have concentrated on the two more immediately apparent problems of inflation and balance of payments.

To a considerable extent *inflation* since the latter part of 1972 has been related to sharply rising prices of commodities traded internationally. In particular, the exceptional increases in prices of foodstuffs have had a large and direct impact on consumer prices. Although grain stocks are at present at very low levels, the prospects are for some easing of the pressure on agricultural prices later in the year. The slow-down in world industrial production might also be expected to induce a slow-down, and in some cases a decline, in prices of industrial raw materials.

Lagged effects of commodity prices and a wage push will continue to increase consumer prices in western Europe in 1974 at a rate that nevertheless was foreseen to be lower than in 1973. The increase in oil prices is now likely to add a couple of percentage points on average to consumer prices. The rise might therefore be larger than in 1973, at around or above 10 per cent for most countries. In marked contrast to developments in western Europe, the east European countries have maintained stable retail prices, although this has entailed the increased use of subsidies. In view of the recent rise in the international price of oil, all countries in the EEC region will now have to consider the implications of changes in relative prices, e.g. with regard to investment policies and savings in the energy sector.

The increase in oil import bills will result in *a deterioration in the trade balances* of most countries, both in eastern and western Europe. But because of the differing importance of oil in their trade balances, as well as the differing scope for import savings, the extent of these deteriorations is likely to vary significantly. (By contrast, the United States should be relatively unaffected while the Soviet Union will derive a considerable benefit.) For the CMEA countries as a whole, the change will not be very large and machinery for pooling of resources is already available. For western Europe, there is a need for financial co-operation and assistance to those countries which are hardest hit. At the same time the already precarious position of some of the developing countries of the world could become untenable. The need to establish international machinery for a multilateral re-cycling of funds to offset the increased cost of oil is therefore a matter of considerable urgency. Until such machinery has been established international trade and the international monetary system will become increasingly vulnerable and unstable.

Greater stability in international financial relationships would also have a healthy influence on price development. The inflation of recent years may have had something to do with the fact that at the same time the international monetary system has lost its anchorage of fixed exchange rates. There is no longer a "discipline" with regard to export pricing exerted by countries with a high rate of increase of productivity as other countries have been able to remain competitive by devaluing. However, exchange rates have probably in the process been brought closer to "fundamental equilibrium". The needs for further re-alignment have thus been reduced. This would also have removed one important factor behind excessive commodity price movements, namely speculation and hedging against changes in par values of various currencies. There is anyway an increased awareness that depreciation is not an easy way of overcoming balance-of-payments difficulties. The effects are lagged and in the short run may be perverse.

Because of the simultaneous deterioration of the trade balances in west European countries, actions to remedy the situation need to be co-ordinated at an international level. The possibility of a serious recession in western Europe in 1974 will be much greater if countries which are relatively well placed to cope with the increased import costs of oil adopt policies to maintain their trade balances. This might make the situation extremely difficult for other countries which are less well placed with regard to their external balance and at the same time are faced with serious threats of increasing unemployment. There must be a broad international agreement on the targets for national trade balances and on financial assistance. Only then can each country have a platform on which to base its own priorities and arrange its domestic policies.

While a slow-down in growth and increases in unemployment have become serious issues in western Europe in 1974, there is in the eastern countries of the ECE region a tendency for labour to become scarce. Emphasis is therefore put on increasing labour productivity in order to sustain future rates of growth although — as in other industrialized countries — it is recognized that maximum growth is not an overriding target but has to be evaluated with care. Increased attention is given to growth proportions, to the speeding up of completion of investments and the modernization of existing capital. There is a resultant strain on resources which is in apparent contrast to the present tendency in western countries of the ECE region to under-utilization of resources. There would thus seem to be both scope and motivation for an increase of exports from western to eastern countries. Such a development would also be in the interest of two-way increases in trade between the regions in the medium- and long-term perspective. In this perspective the changes in relative prices which have taken place and probably are going to take place, will play an important role. They will accentuate the difference between countries which are better and worse off respectively with regard to the endowment of natural resources. In some countries it has also become gradually more difficult to expand energy production and heavy industry without intolerable impacts on the environment. Generally speaking, this would provide an inducement to an acceleration of investment activities in the eastern countries of Europe, particularly the Soviet Union, to which western countries could contribute not only with increased exports but also in the form of industrial co-operation. This would create a basis for a future expansion of trade in both directions.

East-west trade is presently, to some extent, restricted by the need for credit facilities to bridge increases in the import surplus of the CMEA countries. A rapid development of trade between the two regions would require an extension of credit availabilities that could be promoted by international financial intermediation. This could be seen as a part of the new patterns of financial flows which are emerging and will in all probability continue for quite some time. Guided by international co-operation these flows could be channelled also into new investment patterns which are adjusted to foreseeable changes in relative prices and in future need structures.

From a global point of view, it is most important that the new incentives for re-orientation of real and financial resources will not hamper the development efforts of non-oil-producing developing countries. Foreign aid should not slow down because industrialized countries encounter balance-of-payments difficulties, nor should improvements in their terms of trade be welcomed as a contribution to the solution of these difficulties. There are new investment opportunities and incentives for shifts of resources, but certainly there are also opportunities for taking steps towards decreasing disparities of living standards between the countries of the world.

CHAPTER 1

RECENT ECONOMIC DEVELOPMENTS IN WESTERN EUROPE

1. DEVELOPMENTS IN 1973

(i) Output, demand, employment

In 1973—the second year of a cyclical upswing—gross national product rose by about 5.6 per cent for the thirteen west European countries taken together (listed in table 1.1), as against an increase of 3.8 per cent in 1972; manufacturing production rose by about 8 per cent. As was to be expected in a boom year, the growth elasticity of manufacturing output to GNP was substantially above the average long-term elasticity (1.45 in 1973 as against 1.20 in the 1960s and 1.1 in 1972). GNP and industrial production rose faster in North America than in western Europe for the second consecutive year.

In western Europe the period of rapid growth was concentrated in the last quarter of 1972 and in the first quarter of 1973. Subsequently there was a marked deceleration in most countries; the hesitant upswing of 1972/73 had apparently already lost a considerable part of its vigour by mid-October, that is before the outbreak of the Middle-East war and the ensuing developments in the oil situation. The new energy situation did not significantly affect output until the end of November. In December, the first effects were felt in the output of specific branches (motor-cars, certain plastic products, etc.) but, on the whole, the output profile of 1973 was hardly touched by the oil "crisis". In this section the main features of 1973 as a whole will be examined first by country and sectors of demand, and then by outlining the main developments during 1973.

In 1973, gross national product expanded by about 7.5 per cent in Ireland and by about 6 to 7 per cent in Belgium, France, Italy and the United Kingdom. Only in Sweden did the gross national output expand at a rate around 3 per cent (table 1.1).[1] The growth rate of industrial production (as measured by the short-term index) ranged from 10 per cent in Ireland to 4½ per cent in Norway; it was higher than GNP growth in all countries and the growth elasticity was exceptionally high (nearly 3) in Sweden where a weak domestic demand was associated with rapidly rising exports.[2]

The acceleration in output growth between 1972 and 1973 was shared by half a dozen countries but it was particularly striking for the Federal Republic of Germany, Italy, the United Kingdom and Ireland, that is, the four countries with a particularly low rate of growth in 1972. The Federal Republic of Germany, the United Kingdom and Italy taken together account for nearly 80 per cent of west European acceleration in output and are therefore largely responsible for the magnitude of the cyclical acceleration in output which took place between 1972 and 1973. In a second group of countries (Belgium, Denmark, France and the Netherlands) output continued to expand at a high rate in 1973 for the second consecutive year. Finally in Austria, Finland, Norway and Switzerland there was some deceleration in 1973 in comparison with 1972, while in Sweden GNP continued to expand at a relatively low rate.

COUNTRY ILLUSTRATIONS

The factors behind the rapid acceleration of output in the Federal Republic of Germany, Ireland, Italy and the United Kingdom are not the same in each country. In the *Federal Republic of Germany* the driving force was exports which rose by about 16 per cent in spite of the DM revaluation. By contrast, private consumption rose less in 1973 than in 1972 and (more surprisingly) gross fixed capital formation hardly rose more. The continued deceleration of private consumption was due to a steep rise in prices on the one hand and to a restrictive fiscal policy which curtailed the growth of disposable household income on the other. Enterprise investment continued virtually to stagnate and public investment declined. Restrictive policies played a prominent role in checking the growth of domestic demand.

In the other three countries, policies were, on the whole, expansionary and domestic demand played a much more important role than in the Federal Republic of Germany in supporting output growth, though in various degrees in each country. In the *United Kingdom*, as in the Federal Republic, there was a sharp acceleration in export growth between 1972 and 1973 but, in contrast with the Federal Republic, domestic demand also rose sharply. Consumer expenditure was inflated in the first quarter of the year by pre-VAT purchases but there has been little growth since then and, for the year as a whole, the expansion rate was lower than in 1972. There was instead, a strong acceleration of investments in machinery and equipment, while investments in new-residential construction declined.

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[1] For most countries, the growth rates of 1973 are above the long-term trends both for gross national product and (especially) for industrial production. The difference is particularly striking for the United Kingdom and Ireland. By contrast the growth rate for 1973 was well below the long-term trend for Sweden (but not for industrial production).

[2] Industrial (or manufacturing) production is measured by the relative index numbers which in many countries show only minor differences from national accounts data (generally speaking, less than one-half percentage point per year). Austria and Finland showed, however, sizeable differences in 1973 (table 1.5).

TABLE 1.1

Supply and use of resources

[The forecasts for 1974 are national forecasts prepared in September-October 1973 and do not take into account the effects of the new oil situation]

(Percentage change over previous year, in volume)

Country and year	GDP at market prices	Imports of goods and services	Total resources	Total domestic demand a	Gross domestic fixed capital formation				Private consumption	Public consumption	Exports of goods and services
					Total	Residential construction	Other construction	Machinery and equipment			
Austria											
1970	8.1	18.7	10.5	8.0	11.8	11.9		11.7	6.1	3.3	18.6
1971	5.6	5.9	5.6	5.9	12.9	13.0		12.8	6.6	2.6	4.8
1972	7.1	11.2	8.1	7.3	14.8	17.1		12.0	6.8	4.7	10.8
1973M	5.5	9.8	6.6	6.5	2.5	7.0		—3.5	4.8	4.0	7.0
1974O	4										
Belgium											
1970	6.6	7.1	6.7	5.3	8.8	11.4	7.9	10.0	4.6	3.3	10.0
1971	3.4	6.5	4.3	2.4	—2.2	—12.9	13.6	—4.6	3.9	5.9	8.7
1972	5.2	8.3	6.1	5.6	4.8	14.0	0.6	4.3	5.9	7.2	7.2
1973S	6.0	11.25	7.5	5.5	7.0	5.0	9.0		5.0	6.0	12.25
1974S	4.5	8.25	5.5	4.0	3.0	—2.0	4.0		5.0	5.0	9.0
Denmark											
1970	3.0	7.9	4.7	4.3	6.0	3.4		8.5	3.2	11.9	5.7
1971	4.1	1.3	3.1	1.2	1.6	2.4		0.9	2.0	6.6	7.6
1972	4.9	3.4	4.4	2.7	3.2	8.2		—0.8	3.0	7.2	7.9
1973D b	5.1	16.8	9.0	10.3	24.6 a	. .		. .	4.7	6.3	6.4
1974	. .										
Finland											
1970	8.7	20.6	11.2	12.1	12.9	19.3	5.5	17.2	6.7	5.6	7.7
1971	2.2	—0.4	1.6	2.3	3.6	2.0	0.6	7.7	2.9	5.0	—1.1
1972	7.0	4.1	6.4	4.2	5.9	15.5	6.0	—	7.4	5.7	15.3
1973M	5.5	12.1	6.9	7.6	6.7	5.5	3.0	11.5	6.0	4.3	4.3
1974S	5	9.5	6	5.5	4.5	2	1.5	9.5	4.5	6	7
France											
1970	5.8	7.8	6.1	4.3	7.5	7.9	7.2	7.4	4.5	3.5	16.9
1971	5.3	9.6	5.9	4.8	6.2	5.3	3.7	8.6	5.8	3.7	13.0
1972	5.3	11.0	6.1	5.4	6.9	6.4	5.7	8.1	5.6	2.6	9.7
1973O	6.4	14.0	7.4	6.4	8.2	8.0 c	8.3		5.8	. .	13.5
1974O	5.3	12.5 d	6.3	. .	6.3	4.5 c	6.7		5.6	. .	12.0 d

Germany, Federal Republic of[e]													
1970	5.8	15.9	7.7	7.4	11.5	1.6		9.7		16.7	7.0	4.9	9.0
1971	2.7	9.6	4.2	3.3	4.5	9.1		1.5		4.8	5.2	7.3	7.2
1972	3.0	8.2	4.2	3.1	1.9	13.6		−1.9		−0.1	3.7	4.4	7.8
1973F	5.4	10.0	6.4	3.3	0.5	3		−3		1.8	3.1	4.4	16.4
1974N	2.5	7.5	3.5	2	—		−1			1.5	3.5	. .	8
Ireland													
1970	2.7	2.5	2.6	1.9	—	0.2		−2.1		1.3	2.1	6.3	4.7
1971	3.6	4.1	3.8	3.4	7.9	13.3		14.5		2.1	2.1	11.2	4.9
1972	3.9	7.7	5.1	6.2	2.5	20.8		0.8		−3.1	5.4	10.4	2.0
1973M	7.5	14.25	9.5	9.75	16	. .		. .		. .	6	8.5	9
1974D	5.25	13.75	7.75	5	7.5	. .		. .		. .	5	6	15.25
Italy[e]													
1970	4.9	17.5	7.0	7.2	3.4	−7.4		2.7		13.1	7.8	1.9	6.5
1971	1.6	1.2	1.6	0.2	3.5	−12.0		−1.5		1.2	2.5	5.1	7.0
1972	3.1	13.1	4.9	3.2	0.4	1.7		−3.2		1.8	3.3	4.6	11.6
1973M	5.9	11.9	7.1	7.6	9.9	5.5		0.5		18.0	6.2	3.3	5.3
1974S	6.0												
Netherlands													
1970	6.9	14.6	9.3	8.0	10.1	1.9		6.1		19.5	7.6	5.9	12.3
1971	3.9	6.5	4.8	1.9	1.5	9.3		2.3		−2.8	3.3	3.9	11.0
1972	4.4	4.3	4.4	1.7	−1.3	13.7		−11.0		−2.3	3.3	1.6	9.7
1973A[e]	5	11.5	7.5	3.5	4.5	2			5		2.5	1	14
1974S[e]	4.5	8	5.5	3.5	3.5	−5			6		4	3.5	9.5
Norway													
1970	3.5	13.2	6.6	9.1	16.2[f]	11.1		4.2		28.5[f]	2.1	4.0	1.5
1971	5.5	6.8	5.9	7.0	19.4[f]	12.3		7.3		31.7[f]	4.6	7.4	3.3
1972	4.5	−0.3	3.0	−1.5	−4.6[f]	7.8		4.2		−14.5[f]	2.3	5.1	14.6
1973A	3.7	15.5	7.2	6.9	14.6[f]	3.6		1.8		29.3[f]	1.9	5.9	7.7
1974S	5.4	5.9	5.5	5.0	4.3[f]	2.9			4.6[f]		4.0	4.4	6.9
Sweden													
1970	4.5	10.6	5.7	5.0	2.9	−3.6		3.7		6.4	2.0	8.2	8.7
1971	0.2	−3.6	−0.5	−2.1	−2.0	−3.4		−4.4		1.3	−0.7	4.0	5.8
1972	2.5	5.2	3.1	2.3	5.5	2.7		6.2		5.9	2.5	1.4	6.0
1973J	2.9	7.9	3.9	0.9	−1.4	−4.5		−5.8		5.8	2.3	2.7	15.1
1974N	4.5	12[d]	6	5.5	1.5	−8			2.4		4.5	3.5	8.5[d]
Switzerland													
1970	4.2	13.7	6.5	6.2	8.0	6.4		5.6		11.7	5.3	2.3	7.2
1971	3.8	6.1	4.4	5.1	7.8	8.3		8.5		6.6	5.5	3.7	2.5
1972	5.8	6.0	5.8	6.2	7.7	16.7		5.7		3.0	5.7	4.5	5.0
1973J	4.5	5.7	4.8	5.3	3.0		3.0			3.0	4.5	4.4	6.4
1974	. .												

TABLE 1.1 (*continued*)

Supply and use of resources

[The forecasts for 1974 are national forecasts prepared in September-October 1973 and do not take into account the effects of the new oil situation]

(Percentage change over previous year, in volume)

Country and year	GDP at market prices	Imports of goods and services	Total resources	Total domestic demand *a*	Gross domestic fixed capital formation				Private consumption	Public consumption	Exports of goods and services
					Total	Residential construction	Other construction	Machinery and equipment			
United Kingdom											
1970	1.9	5.0	2.4	1.9	2.0	−8.8	4.2	4.6	2.5	1.5	5.0
1971	2.3	4.8	2.8	1.8	0.5	5.2	2.3	−2.3	2.7	3.0	7.1
1972	2.4	9.8	3.8	4.0	1.7	5.6	1.4	0.6	5.9	3.9	2.7
1973M	5.9	11.1	6.9	6.4	4.1	3.6	−3.8	10.2	4.5	3.7	8.9
1974N	4.2 *g*	9.1	5.2	4.0	6.6	−6.9	9.6		2.2	2.6	9.9
Canada											
1970	2.7	−1.8	1.8	0.1	0.9	−8.1	4.6	1.9	2.1	10.0	9.1
1971	5.8	8.8	6.4	6.5	7.9	18.8	6.6	3.7	5.5	5.3	5.7
1972	5.6	13.4	7.1	7.1	3.6	9.2	−1.9	6.9	7.8	3.4	7.1
1973M *e*	7.1	11.0	7.9	8.3	10.4	11.0	5.2	15.8	8.6	4.4	6.5
1974											
United States e											
1970	−0.4	3.5	−0.2	−0.7	−4.1	−6.3	−2.5	−4.1	1.8	−4.5	7.9
1971	3.2	4.8	3.3	3.4	1.6	30.6	−5.1	0.2	3.9	−0.6	1.0
1972	6.1	11.5	6.4	6.4	12.7	19.3	2.2	13.4	6.1	3.3	7.0
1973F	5.9	5.0	5.8	4.9	7.0	−1.7	7.8	11.3	5.3	1.3	19.3
1974											

Sources: Replies to United Nations *Questionnaires on national accounts* and:

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Ireland: *National Income and Expenditure 1972*, and the Economic and Social Research Institute, The *Quarterly Economic Commentary*, March 1974.

Italy: *Relazione di contabilità nazionale 1973*, and *Relazione Generale sulla situazione economica del* [illegible]

Netherlands: *Nationale Rekeningen 1972*, and *Central Economic Plan 1974*, April 1974. September 1973.

Norway: *Statistisk Ukehefte* No. 17/74, and *The National Budget of Norway 1974*, September 1973.

Sweden: *The Swedish Economy*, Autumn 1973, and *Konjunkturläget*, January 1974.

Switzerland: *La vie économique*, No. 1, 1974.

United Kingdom: *Preliminary estimates of national income and balance of payments 1968 to 1973*, March 1974, and *National Institute Economic Review*, November 1973.

Canada: *National income and expenditure accounts*, March 1974.

United States: *Economic Report of the President*, February 1974.

NOTE. — Key to the months in which data were released:

S = September 1973	N = November 1973	J = January 1974	M = March 1974
O = October 1973	D = December 1973	F = February 1974	A = April 1974

a Including stock changes.

b Gross-gross concept.

c Household investments.

d Goods only.

e Gross National Product.

f Including ships and oil exploration.

	Data excluding ships are:		*Data excluding ships and oil exploration are:*	
	Total GDFCF	*Machinery and equipment*	*Total GDFCF*	*Machinery and equipment*
1971	13.0	−7.6	11.3	15.4
1972	5.5	5.5	3.6	0.3
1973	10.4	23.0	3.3	4.9
1974	5.8	6.4	4.4	4.8

g Output estimate.

In *Italy* the output revival occurred after a long period of slow growth and was stronger than generally expected. It was supported, as in the United Kingdom, by an easy monetary policy and by a floating currency. In contrast with both the United Kingdom and the Federal Republic of Germany (and also with Italy's past experience), exports rose only moderately and domestic demand grew much faster than GNP, though the brisk export expansion of 1972 probably also played a role in the more recent general economic upswing. Private consumption as well as the major categories of investment contributed to the over-all expansion of output. In *Ireland* all the major sectors of final demand expanded vigorously in 1973 but the acceleration of the growth rate was particularly strong for fixed capital formation. The growth of output was also stimulated by booming exports both for agricultural and industrial products. Fiscal and monetary policies were, on the whole, expansionary in 1973 and public investment probably rose by more than 10 per cent. Monetary policy, however, became gradually more restrictive in the course of the year.

In a second group of three small west European countries (Belgium, Denmark, and the Netherlands) and France the growth rates of 1972 were already around, or higher than, the long-term trends, and in 1973, these rates of 1972 were maintained or surpassed. In contrast with the previous group, the "recession" in these countries lasted no more than one year (1971) and in some (France, for example) it was quite mild.

In 1973, there was some further acceleration in Belgium, France and the Netherlands while in Denmark the growth rate of output remained virtually the same as in 1972. In *France* and *Belgium* the output acceleration in 1973 was due to fixed investment and exports, private consumption expanding no faster than in 1972. Economic policy gradually took a more restrictive turn during 1973 in Belgium and, to a less extent, in France. In particular, public investment was reduced in the former country while it rose considerably in the latter. In both countries, a more restrictive policy line was mainly dictated by inflationary forces rather than by balance-of-payment considerations.

A common feature in *Denmark* and the *Netherlands* was the dramatic increase of imports, which rose by 16-17 per cent in Denmark and by about 11 per cent in the Netherlands. In 1972, import growth had been below 5 per cent in both countries. The rapid growth of imports was associated with an equally rapid expansion of domestic demand which grew considerably faster in 1973 than in 1972.

In Denmark, both private consumption and gross fixed capital formation rose faster than in 1972, the acceleration being particularly sharp for enterprise investment. In particular, investment in agriculture increased by as much as 60 per cent in 1973, boosted largely by the country's membership of the Common Market. The large import increase was due not only to the high degree of capacity utilization but also to the removal of import duties early in 1973. In the Netherlands, the most dynamic sectors of final demand were enterprise investment and exports. Policies became gradually more restrictive in the course of the year in both countries. The guilder was revalued by 5 per cent in September in order to reduce cost and price pressures.

Austria, Finland, *Norway* and Switzerland are the only four countries to show a deceleration of output growth in 1973. In the first three countries, the deceleration in output growth was associated with a deceleration of exports while imports and domestic demand rose faster than in 1972. For *Austria* furthermore, account has to be taken of the buying spree in the last quarter of 1972 which anticipated the impending fiscal changes and which inflated the over-all growth for that year. Austria was virtually by-passed by the 1971 "depression" and since 1969 has maintained a continuously high rate of growth, with fixed investment expanding at a particularly rapid pace. In 1973 the investment boom faded away and restrictive policies (adopted or reinforced in November 1972) checked the growth of demand and led, *inter alia*, to an increase of stocks. In *Finland* too, output growth had been exceptionally fast in 1972 when it was sustained by foreign demand. In 1973 export growth decelerated considerably, mainly because of a shortage of raw material supplies to the forest industry. However, in 1973 there was an acceleration in the growth rate of enterprise investment and an increase in stockbuilding. In *Switzerland*, by contrast, export growth accelerated in 1973 and the slowing down of output growth is essentially a consequence of the anti-inflation measures adopted at the end of 1972. Both fixed investment and private consumption rose less in 1973 than in 1972. A more stringent fiscal policy has curbed the growth of disposable household income and slowed down the growth of private consumption. The slowing down, however, was more pronounced for investment than private consumption; within investment, it was particularly large for dwellings and public construction.

Sweden's economic development in 1973 differed from most other countries in that total output continued to expand only moderately and, furthermore, the growth of domestic demand was less than in 1972. As in the Federal Republic of Germany, the driving force came from exports which increased by 15 per cent in volume against about 8 per cent for imports. Weak areas were private consumption, housing and investment in inventories. GNP increased by about 3 per cent in 1973 against 2.5 per cent in 1972 but industrial production rose by almost 8 per cent as against 2.5 per cent in 1972. Domestic demand, however, tended to strengthen during the second half of 1973. The relatively low demand pressures appear to have contributed to a favourable balance of trade and possibly also to a relatively lower rate of price increase than in other countries.

DEMAND SECTORS

It appears from the foregoing country illustrations that the growth of *enterprise investment* was a key feature of economic development in western Europe in 1973. The increase occurred in all countries (except the Federal Republic of Germany) whether or not GNP growth accelerated. A sharp expansion of enterprise investment is of course a usual feature of the late phase of the upswing of the business cycle.

Available information for 1973 is shown in table 1.2. For seven of the nine countries shown there, enterprise investment rose more in 1973 than in 1972; and all indications suggest that the increase was also larger in Denmark and Ireland (not shown in the table for lack of quantitative information). The increases in most countries in 1973, however, are smaller than those which occurred in the same countries in previous cyclical upswings, especially those of 1959/60 and 1969/70. In most countries they also remain below the increases during the more modest cyclical upswing of 1964/65. In the present cycle, the expansion of enterprise investment remained well below the rate of 10 per cent per year in all countries except Norway,[3] while in previous booms rates of growth of 10 to 20 per cent were quite usual. The weakness of the present enterprise investment boom appears to be due mainly to investment in manufacturing. This is generally a volatile component of enterprise investment, but in 1973 it failed to display any large increase. In the United Kingdom it rose by no more than 6 per cent while earlier forecasts had put the increase at nearly 9 per cent; and in the Federal Republic of Germany there was virtually no increase at all. In the Netherlands, the expansion of enterprise investment hardly touched the manufacturing sector and in Finland there was no investment boom in manufacturing in the course of the present cycle.[4]

TABLE 1.2

Public investment, enterprise investment, and output in manufacturing

(Annual percentage change, in volume)

Country and year	*Public investment* [a]	*Enterprise investment*		*Manufacturing output*
		Total [b]	*Manufacturing*	
Belgium				
1972	5.8	1.8	−6.0	5.9
1973	1	9	. .	6.6
Finland				
1972	16.5	3.8	−4.5	11.9
1973	−3.6	9.0	. .	6.0
France				
1972	6.1	6.5	. .	5.5
1973	9.9	8.0	. .	9.2
Germany, Federal Republic of				
1972	−6.0	0.4	. .	3.0
1973	−1.8	0.2	. .	7.6
Italy				
1972	−8.2	0.8	−0.3 [c]	4.2
1973	−4.9	13.4	17.0 [c]	9.6
Netherlands				
1972	−8.5	−4.6	−8.5 [d]	5.2
1973	−4.5	8.5	3.4 [d, c]	6.1
Norway				
1972	13.6	1.9 [f]	−7.1	3.1
1973	1.6	16.4 [f]	4.5	4.1
Sweden				
1972	6.2	6.4	1.0 [g]	2.9
1973	−4.9	3.4	8.2 [g]	6.7
United Kingdom				
1972	7.1	−0.6	−9.8	1.9
1973	−0.7	5.5	6.0	8.9

Sources: as for table 1.1 and national statistics.

[a] General Government's investment by sector of utilization; figures for 1973 are not always fully comparable among countries.

[b] Excluding dwellings, except for Finland.

[c] Industry.

[d] Industry and construction.

[e] Three quarters 1973 over three quarters 1972

[f] Excluding ships, but including oil exploration (the changes excluding ships and oil exploration are: *1972*: −1.7 per cent, *1973*: +3.9 per cent).

[g] Including mining.

An increase in enterprise investment in 1973 of only modest proportions had been forecast by most countries last year and in the SURVEY for 1972 the question was raised as to whether a major investment boom was likely to develop in 1974. Even before the new energy situation had made itself felt, it was fairly clear that such a boom would probably not materialize. It is true that in some countries (for example Norway and the United Kingdom) a sharp expansion had been forecast for manufacturing investment in 1974;[5] but this was not the case for most other countries where no significant improvement on the rates of 1973 had been forecast.

Stockbuilding, together with enterprise investment, was one of the most dynamic components of domestic demand in 1973. Stocks of final industrial products increased in most countries during 1973[6] and, in some of them at least, there was also an increase of stocks of raw materials (mainly imported) partly reflecting, perhaps, precautionary buying against further price increases. On the whole, stockbuilding accounted for a particularly large proportion of the increase of final domestic demand in Austria (about 40 per cent), and in Finland, the Netherlands and the United Kingdom (between 25 and 35 per cent).

Other sectors of domestic demand did not show the same degree of inter-country uniformity in 1973 as did enterprise investment or stockbuilding. Generally, they had a restraining effect on GNP growth in 1973, mainly as a consequence of restrictive policies.

A deceleration or an actual decline in *public investment* had been planned by a number of countries for 1973 in the context of their anti-inflationary policies. As can be seen from table 1.2, public investment declined in Finland and Sweden, rose less than in 1972 in Belgium and Norway, declined in the Federal Republic of Germany, Italy and the Netherlands for the second consecutive year, and remained virtually stagnant in the United Kingdom. By contrast, it rose in France where its expansion was designed to support the level of over-all economic activity and to combat unemployment.

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[3] Recent enterprise investment has been greatly stimulated in Norway by oil prospection. Without this there would not have been an investment boom in 1973.

[4] Ministry of Finance, *Economic Survey 1973*, Helsinki 1973, p. 82.

[5] An expansion of about 14 per cent for investment in manufacturing had been forecast in Norway for 1974, and of more than 20 per cent in the United Kingdom.

[6] See section 1 (ii) of this chapter.

TABLE 1.3

Primary and disposable income, and household savings in selected countries

A = Primary income: annual percentage increase
B = Disposable income: annual percentage increase
C = Savings as percentage of disposable income

Country	*1971*	*1972*	*1973*
Finland			
A	14.0 [a]	17.0 [a]	18.2 [a]
B	12.3	13.5	13.9
C	14.9	14.0	12.1
France			
A	10.1 [b]	11.7 [b]	13.7 [b]
B	11.8	11.5	13.7
C	16.7	16.5	16.7
Germany, Federal Republic of			
A	10.9	9.1	12.5
B	9.1	9.3	9.5
C	15.3	15.1	14
Netherlands			
A	12.0	13.8	15 [a]
B	11.1	14.5	. .
C	13.5	15.4	. .
Norway			
A	13.8	10.2	14.3
B	9.2	6.6	11.3
C	11.4	9.5	11.5
Sweden			
A	8.0	8.0	8.2
B	9.5	6.6	11.0
C	6.3	5.4	7.5
United Kingdom			
A	10.2	11.6	15.9
B	10.7	13.2	14.5
C	8.0	8.2	10.0

Sources: as for table 1.1.

[a] Compensation of employees.

[b] Excluding taxes.

Investment in dwellings expanded less in 1973 than in 1972 in most countries owing to a combination of supply constraints and restrictive policies. In Sweden there was an actual decline while in most other countries the deceleration from 1972 was quite large. In France on the other hand a liberal credit policy supported rising demand in this sector.

Only in Denmark, Ireland and Italy did *private consumption* rise in 1973 at a higher rate than in 1972, and only in Italy did it rise faster than gross national product (it rose more than GNP in most west European countries in 1972). Changes in primary disposable income and household savings are shown for a number of west European countries in table 1.3. Both primary and disposable household income rose faster in 1973 than in 1972 in most countries but prices also rose faster, so that the growth of household purchasing power rose no faster than in 1972. Furthermore, in Norway, Sweden and in the United Kingdom there was an increase in the savings ratio. In the Federal Republic of Germany household consumption has been severely affected by a stringent fiscal policy which has led to a much lower increase in disposable than in primary income. This considerable difference between the growth of primary and disposable incomes was due, first, to the reimbursement in 1972 of the "conjunctural tax", secondly to the increase in 1973 of the rates for some social security schemes (especially for pensions and sickness) and, thirdly, to the operation of "fiscal drag". Very little is known at the time of writing of the pattern of private consumption in 1973; but it would appear that in most countries (though not in the United Kingdom) there has been a shift of unusual size away from textiles and clothing and in favour, probably, of durable goods.

EMPLOYMENT

In 1973, total employment rose between 1 and 2 per cent in Austria, France and Ireland, and less than 1 per cent or not at all in the other west European countries. The growth of output per person employed (for short, labour productivity) ranged from 2.5 per cent in Sweden to nearly 5.5 per cent in the United Kingdom. In Canada and the United States, employment rose more than in western Europe, and the employment contribution to output growth was larger than in any west European country.[7] The country ranking is much the same in manufacturing, but employment as well as labour productivity changes have been larger in this sector than in the total economy (table 1.4).

Changes in employment reflect not only changes in output but also the cyclical position of each country. In Austria, employment in manufacturing rose at an accelerated rate in the years 1971 to 1973 while the growth of output per person employed decelerated. The contribution of employment to output growth tends to increase at the end of an upswing and during this period Austria was at the tail-end of a long phase of cyclical expansion which had reached its peak in 1970. Thus, output per person employed in Austria rose in 1973 less than might have been expected on the basis of the long-term non-lagged relationship between output and productivity increases in the same year. By contrast, in the Federal Republic of Germany, Ireland and the United Kingdom productivity rose relatively fast. These three countries in 1973 were in the upswing of a cycle and the scope for productivity increases was bigger than in Austria. For the United Kingdom, furthermore, there also appears to have been a structural change in the relationship between changes in output and labour productivity: in the second half of the 1960s there has been an acceleration in the growth of labour productivity for a given unit increase of output.

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[7] This is not a peculiarity of 1973. In North America the contribution of employment to output growth was considerably higher than in western Europe in the post-war period.

TABLE 1.4

Employment, labour productivity and unemployment

Country and year	Total economy		Manufacturing				Unemployment		
	Employment	Output per person employed	Employment	Output per person employed	Man-hours worked (labour input) a	Output per man-hour worked	Annual average	End of year	As percentage of labour force b (end of year)
	Annual percentage changes						Thousand persons		
Austria									
1971	1.3	4.2[c]	0.7	6.5	0.4	6.8	52.0	67.2	2.0
1972	1.1	5.9[c]	0.9	6.0	−0.6	7.6	49.1	57.1	1.7
1973	2.0	3.4[c]	1.5	3.0	0.4	4.1	41.3	60.8	1.8
Belgium									
1971	1.1	2.3	0.1	1.5	−2.3	4.0	70.9	85.7	2.2
1972	−0.1	5.3	−1.5	7.5	−3.8	10.1	86.8	99.7	2.5
1973	. .	. .	1.2	5.3	−1.1	7.8	91.7	101.9	2.6
Denmark									
1971	0.7	3.4	−2.1	5.5	−5.0	8.7	30.0	51.1	2.1
1972	0.0	4.9	−3.1	9.3	−0.9	6.9	29.9	39.9	1.6
1973	0.8*	4.3*	4.0	. .	−2.0	. .	20.1	39.0	1.6
Finland									
1971	−1.2	3.4	0.4	2.2	. .	. .	49	53	2.6
1972	1.2	5.7	3.8	7.8	. .	. .	57	53	2.5
1973	0.8	4.7	1.2	4.7	. .	. .	51	47	2.1
France									
1971	0.6	4.5	0.9	4.7	−0.1	5.7	336.6	397.9	1.9
1972	0.8	4.6	0.9	4.6	−0.5	6.0	380.3	413.1	1.9
1973	1.4	4.9	2.7	6.3	0.8	8.3	394.1	460.6	2.1
Germany, Federal Republic of									
1971	−0.1	2.6	−0.9	2.6	−4.2	6.2	185.1	269.8	1.0
1972	−0.7	3.6	−2.0	5.1	−4.1	7.4	246.4	279.2	1.0
1973	0.0	5.3	−3.0	7.3	0.1	7.5	273.5	485.6	1.8
Ireland									
1971	0.3	3.5[c]	−0.5	4.5	−1.3	5.4	42.4	48.1	4.3
1972	−0.9	5.7[c]	−0.3	5.0	0.0	4.7	48.0	47.6	4.3
1973	1.4	6.0	2.7	9.5*	3.2	9.0*	44.0	42.7	3.8
Italy									
1971	−0.3	1.9	0.8	−0.9	−5.5	5.7	609	615[d]	3.2
1972	−1.7	4.9	−1.4	5.7	. .	. .	697	709[d]	3.7
1973	0.9	5.0	1.1	8.4	. .	. .	668	586[d]	3.1
Netherlands									
1971	0.7	3.2	−0.8	5.0	. .	. .	68.9	114.5	2.4
1972	−0.8	5.2	−3.4	8.9	. .	. .	114.7	133.0	2.8
1973	0.0	5	−1.0*	7.2	. .	. .	117.0	138.1	2.9
Norway									
1971	0.7	4.8	0.8	3.4	−0.6	4.8	12.2	20.8	1.3
1972	0.0	4.5	−0.3	3.4	−2.2	5.4	14.8	25.3	1.6
1973	0.4	3.3	−0.3	4.4	. .	. .	12.8	16.3	1.0
Sweden									
1971	0.1	0.1	−2.1	3.2	−4.4	5.6	59.6	73.6	1.9
1972	−0.1	2.6	−1.5	4.5	−5.1	8.4	69.0	72.5	1.8
1973	0.4	2.5	0.7	6.0	−0.3	7.0	66.2	64.7	1.6
Switzerland									
1971	0.9	2.9	−0.3	2.4	−1.6	3.8	—	—	—
1972	0.3	5.5	−1.2	3.3	−2.7	4.9	—	—	—
1973	0.0	4.5	−1.1	6.7	−2.1	7.8	—	—	—

TABLE 1.4 (*continued*)

Employment, labour productivity and unemployment

Country and year	Total economy: Employment	Total economy: Output per person employed	Manufacturing: Employment	Manufacturing: Output per person employed	Manufacturing: Man-hours worked (labour input) *a*	Manufacturing: Output per man-hour worked	Unemployment: Annual average	Unemployment: End of year	Unemployment: As percentage of labour force *b* (end of year)
	Annual percentage changes						Thousand persons		
United Kingdom									
1971	−2.0	3.5	−3.2	2.8	−6.4	6.3	799.1	910.9	3.7
1972	0.6	2.0	−3.3	5.6	−3.9	6.2	885.5	781.6	3.2
1973	0.5	5.4	0.6	8.3	1.6	7.2	628.7	513.5	2.1
Canada									
1971	2.5	3.2	−1.0	6.1	−1.0	6.1	552	530	6.1
1972	3.1	2.4	1.7	4.9	2.5	4.1	562	584	6.5
1973	5.2	1.8	4.8	3.5	3.8	4.5	520	512	5.5
United States									
1971	0.6	2.4	−4.2	7.3	−4.1	7.2	4 993	4 695	5.5
1972	2.9	3.0	2.2	6.7	4.9	3.9	4 840	4 116	4.7
1973	3.2	2.7	4.7	4.9	5.6	4.0	4 308	4 058	4.6

Sources: for output: United Nations, *Yearbook of national accounts statistics*, New York; OECD, *National accounts of OECD countries*, Paris, and corresponding questionnaires, and national statistics. (See also table 1.1.)

For employment, unemployment and man-hours worked: national statistics.

Note. — The basic data for output of the total economy refer to GDP at constant market prices. For manufacturing the yearly changes in output for 1971 and 1972 refer to national accounts data, based on the contribution of manufacturing to GDP, except for Ireland, the Netherlands and Switzerland, where the output data are based on the short-term index of manufacturing production. The preliminary output figures for 1973 used as a basis for this table are derived from such indices for all countries.

The employment data for the total economy and manufacturing refer to all persons employed. For three countries, Finland, the Netherlands and Norway, national series for equivalent man-years have been used. The employment data differ in many cases from the data on man-hours worked, which are commonly derived from industrial statistics which exclude small establishments.

a Man-hours refer to wage-earners only (for France also salary-earners).

b The definition of unemployment varies between countries, so these percentages cannot be used for inter-country comparisons.

c Output for the whole economy refers to GNP instead of GDP.

d October data.

The only modest increase in industrial employment in most countries in 1973 is generally the result of two factors: first, an increase in industrial output which, though higher than the long-term trend, was not very large in comparison with previous cyclical upswings; and, secondly, the fact that the output increase of 1973 came after one or two years of very small output growth. It is true that 1972, and not 1973, was the first year of the cyclical upswing in output, but it is arguable as to whether the upswing actually started in the first or in the last quarter of 1972 (the second and the third quarters of the year were periods of very slow growth). It may be recalled in this context that the employment increases of 1969 were of a quite different order, because output rose more and because 1968 (the first year of the upswing) was characterized by a vigorous and continuous growth. But in 1968 employment had increased very little or not at all.[8]

The length of the working week continued to decline in 1973 in most countries, particularly the United Kingdom,[9] and in most countries this reduction more than offset the employment increase. Owing to the modest changes in employment (and in labour supply), changes in unemployment were also small in most countries in 1973. For the year as a whole, unemployment on average declined in Austria, Denmark, Finland, Ireland, Italy, Norway, Sweden and the United Kingdom. However, if the end of 1972 is compared with the end of 1973, the change is less favourable. In some countries (Austria and Denmark) where unemployment on average was lower in 1973 than in 1972, the situation was reversed at the end of the year. In France, the Netherlands and especially the Federal Republic of Germany, where unemployment on average was higher in 1973 than in 1972, the difference is even larger when the comparison is based on end-of-year figures.

The different behaviour of labour productivity in the upward and downward phases of the cycle reflects, *inter alia*, the time-lags with which employment changes follow output changes. This point is illustrated in chart 1, which compares changes in output, employment and man-hours worked in manufacturing industry for ten west European countries, on a quarterly basis. For Denmark, only the changes in employment and man-hours worked are shown since no quarterly indices of manufacturing production are available.

The upper part of each block shows the percentage deviation of actual increases from the linear trend[10] of the index of manufacturing output. The deviations are

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[8] See *Economic Survey of Europe in 1969*, part II, p. 94, table 4.

[9] Nine countries provide the relevant data. Hours worked per worker refer only to wage-earners in manufacturing.

[10] That is, the deviation as a percentage of the trend value.

CHART 1

Output, employment and man-hours worked in manufacturing (quarterly data, seasonally adjusted)

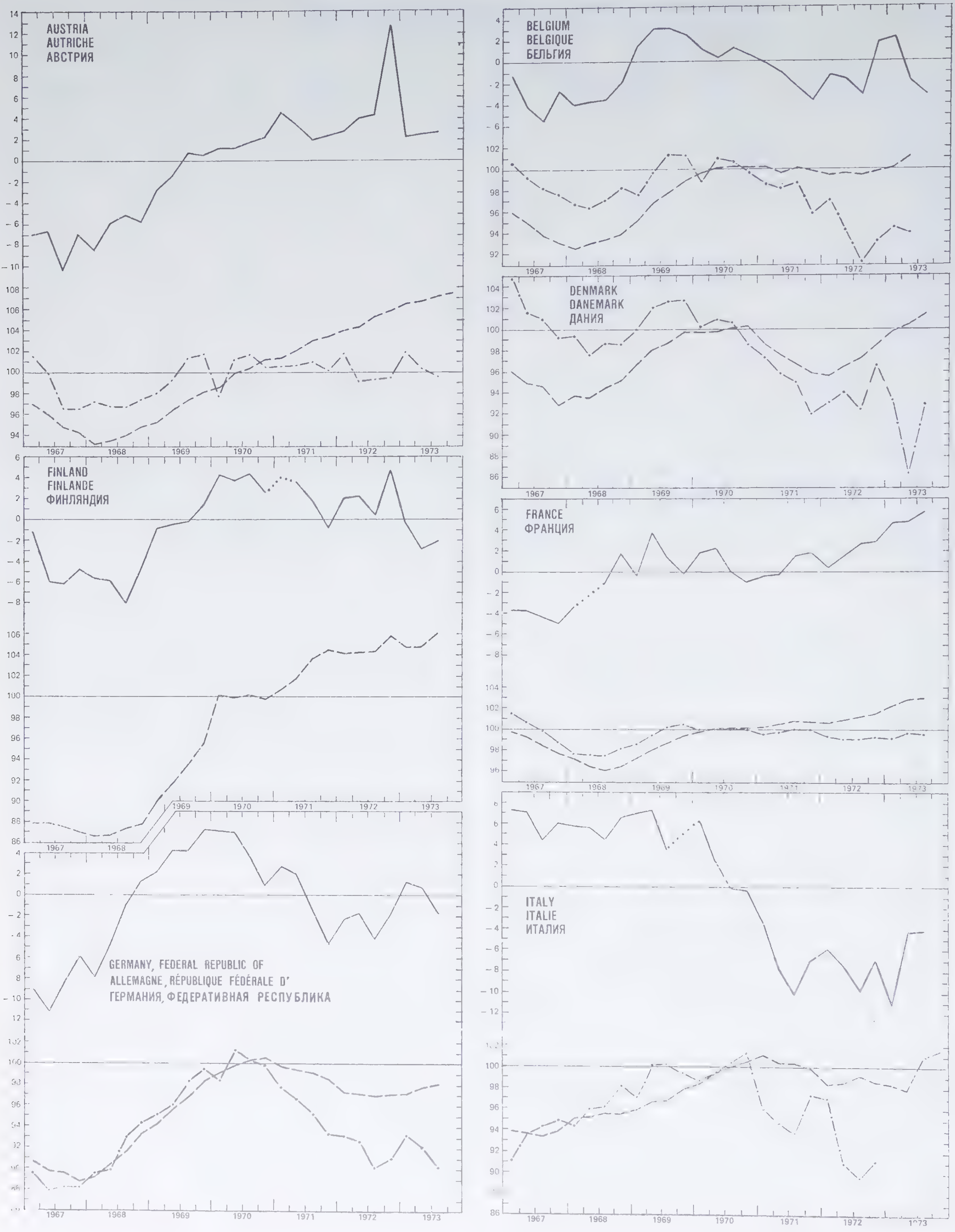
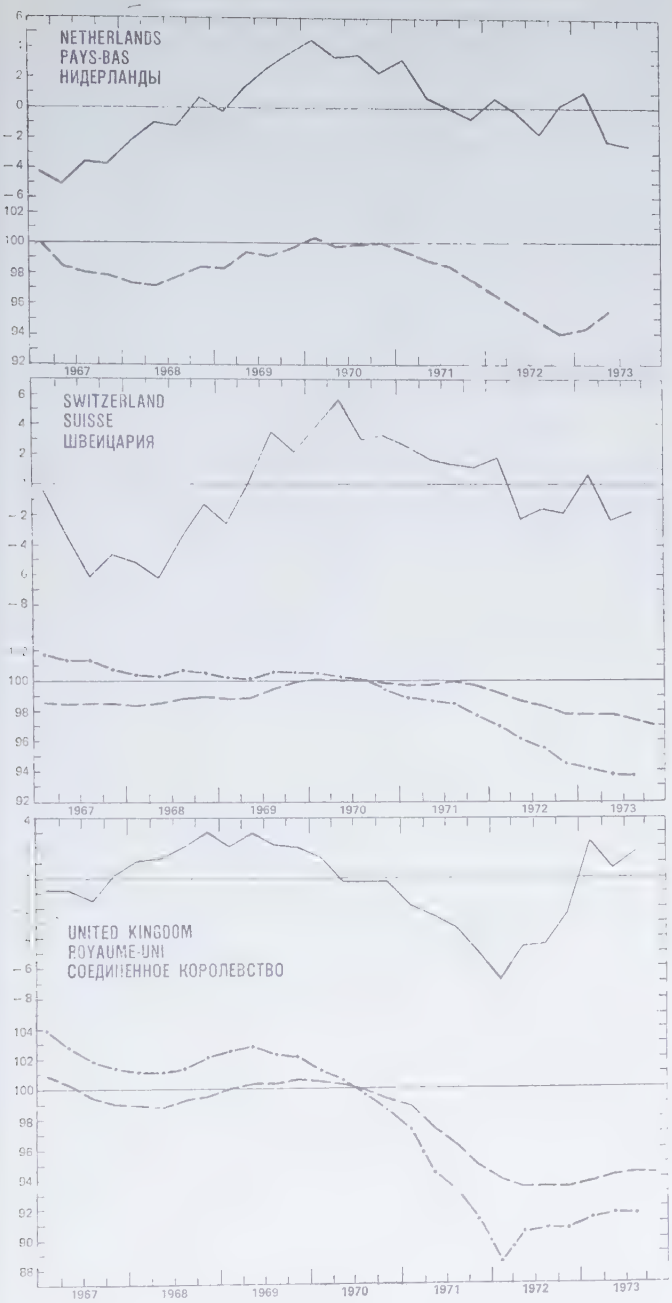
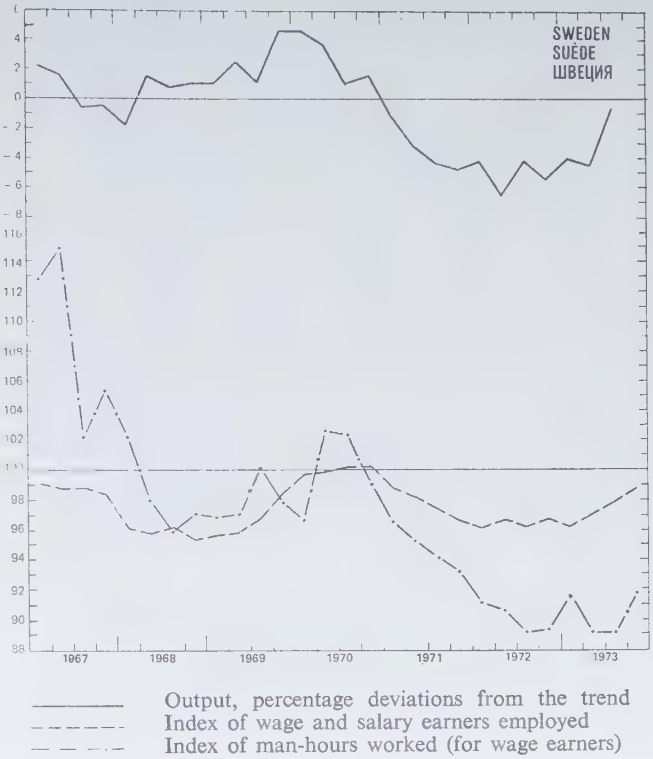


Chart 1 *(continued)*





———	Output, percentage deviations from the trend
– – – –	Index of wage and salary earners employed
— — –·–	Index of man-hours worked (for wage earners)

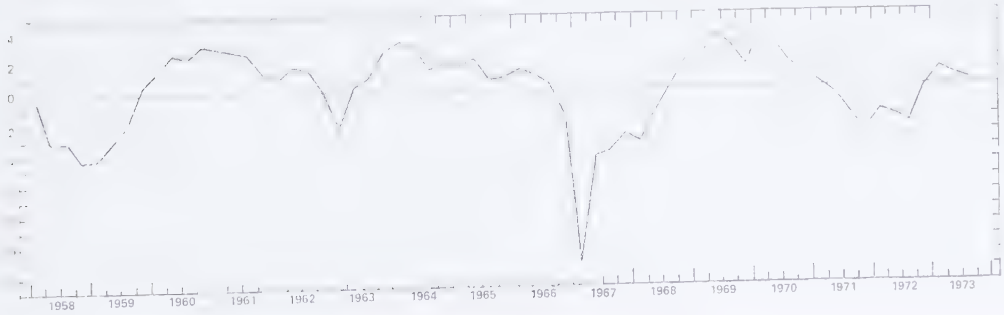
Note. — The output data refer to percentage deviations from the trend. The trend refers to the period 1958 to 1973 but only the period 1967 to 1973 is shown in the chart. The trend and the percentage deviations from it have been calculated by least squares regression of seasonally adjusted quarterly data against time. An exponential equation was used. The basic data were taken from OECD, Industrial Production, Historical Statistics 1955-1971, and the corresponding Quarterly Bulletins for 1972 and 1973.

The employment data are quarterly indices seasonally adjusted, 1970 = 100. The basic data were taken from national sources and seasonally adjusted by the Secretariat.

Output falls due to large strikes (France in the second quarter of 1968; Italy in the last quarter of 1969; Finland in the first quarter of 1971) are not shown on the chart since the corresponding falls in employment and man-hours worked are not recorded (or only partially recorded) in the employment statistics, which generally reflect the situation at a single point of time. In the chart, the production levels before and after the strikes have been joined by a dotted line.

Chart 2

Manufacturing output for the European OECD countries combined (deviations from the trend, 1958 to 1973)



Percentage deviations from thet rend (quarterly data seasonally adjusted)

Note. — See notes to chart 1 on output

shown for the years 1967 to 1973 but the trend has been calculated over the whole period 1958 to 1973, on the basis of the quarterly indices of manufacturing production, seasonally adjusted. The lower part of the blocks show employment and man-hours worked in manufacturing. In contrast with output (shown as deviations from the trend), the employment lines are index numbers (1970=100) and therefore show actual increases or declines in employment. The point of interest here is the time-lag between the two variables.[11] Post-war experience has shown that in the cyclical upswings (that is when output growth is accelerating) employment in manufacturing shows a tendency to increase; and in the cyclical downswings (when output growth is decelerating or falling) employment shows a tendency to decline. If the output acceleration or deceleration is quite mild, then of course the change may be absorbed either by changes in output per person employed or by changes in the length of the working week, leaving employment virtually unaffected. With reference to the historical west European experience of 1967 to 1973, the chart brings to light the following main points:

(*a*) Employment changes have always followed output changes with a certain time lag. In the cyclical upswing of 1967/68, employment started to increase, typically, two or three quarters behind the acceleration of output. The subsequent output downswing (which started in 1970) was very mild for Belgium, Finland and France and particularly for Austria. In this last country, employment continued to increase at a rather steady pace. In Belgium, Finland and France, it ceased to increase for some months but did not decline. In the Federal Republic of Germany, Italy, the Netherlands, Sweden and the United Kingdom, the deceleration in output growth was more pronounced (in some cases there was an actual decline). In these countries, employment did decline and the time-lag behind the slowing down in output was again between two and three quarters, as in the case of the previous upturn. It was somewhat longer—one year—in Italy presumably because the new wage agreements reached at the end of 1969 contained much more severe regulation of overtime and shift work.

As stated already there was very little employment increase in the cyclical upswing of 1972. In most countries, output started to recover in the first quarter of 1972 but employment started to increase only one year later. This is an unusually long time-lag, but it may be explained by the hesitant nature of the output recovery (an acceleration in the first quarter was followed by two quarters of virtual stagnation). In France, the acceleration of output started in the second quarter of 1972, while employment (which as already mentioned had stagnated but not declined) started to increase in the third quarter. This quick reaction of employment to output acceleration in France is probably due to the fact that there had not been a previous recession and therefore there had been very little hoarding of labour and little unused capacity. In view of the prevailing time-lag between output and employment changes, it is not surprising that the new deceleration in output which started in most countries in the second quarter of 1973 was not yet reflected in the employment figures of the third quarter (the latest available at the moment of writing).

(*b*) The main feature of the graph of man-hours worked is its downward slope.[12] Though 1967 was a depression year the labour input towards the end of 1973 was still lower than at the beginning of 1967 in all countries shown in the chart except the Federal Republic of Germany. In this country, where the 1967 depression had been more severe than in most other countries and where employment towards the end of 1973 was about 8 per cent higher than at the beginning of 1967, man-hours worked were barely 2 per cent higher. In the other countries there was an actual decline in labour input between the beginning of 1967 and the end of 1973; this was more than 10 per cent in Denmark, Sweden, the United Kingdom, and, probably, Belgium. The difference between the curve showing persons employed and that of man-hours worked reflects of course the shortening of the working week in the period under review which was essentially a statutory change.

(*c*) In the framework of this downard trend for labour input, the chart allows a comparison between cyclical changes in output and in man-hours worked. Rather surprisingly, not only employment but also man-hours worked continued to decrease, though at a reduced rate, for about two quarters after the output revival in 1967. Man-hours worked then started to increase simultaneously with employment and the two curves then move broadly in parallel. Thus, the time-lag between output acceleration and the increase in man-hours was much the same as for employment, namely, from two to three quarters depending on the country. Only in the Federal Republic of Germany did the increase in man-hours worked lead, by one quarter, the increase in employment (thus displaying a lag of only one quarter in respect of output recovery).

By contrast, there is a fairly close temporal correspondence between changes in output and changes in man-hours worked for the more recent downswings and upswings. The output downswing of 1970-1971 was relatively large in seven out of the eleven countries shown. The exceptions are Belgium, Finland, France and, especially, Austria. In Austria, the effect of the only slight deceleration in output growth was hardly reflected on employment, but man-hours worked clearly ceased to grow in close correspondence with output deceleration. In Belgium and France, employment also ceased to grow but its levelling off was preceded by the levelling off in man-hours worked. In all the other countries, there was an actual decline in man-hours worked which more or less coincided with the deceleration in output; in Sweden and the United Kingdom, there was a time-lag of one quarter.

In the 1972 upswing, man-hours worked showed a clear tendency to increase only in the fourth quarter except in the United Kingdom. In this case the time-lag appears to have been two quarters; but it has to be remembered that the output revival of the first quarter was followed by two quarters of slow growth (well below the trend level). It was only in the fourth quarter that output definitely revived and in this quarter hours worked also rose. A close temporal correspondence between changes in output and in man-hours worked again appears in the 1973 downturn. In the second quarter of the year when output started to decelerate in most countries, man-hours worked showed a clear tendency to fall. On the whole it appears that there is no time-lag between output and man-hours in the cyclical downswing while past west European experience is less conclusive in the case of cyclical upswing.

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[11] [illegible] similar analysis for the period 1964 to 1968 can be found in the Survey for 1968, p. 32 ff.

[12] Figures on man-hours worked are not available for Finland and the Netherlands. Except for France, man-hours worked refer to wage-earners only.

LABOUR MIGRATION

The net inflow of foreign workers continued in 1973 in the traditional receiving countries, and was generally higher than in 1972. However, no simple relationship can be established between cyclical fluctuations on the one hand and the net volume of immigration on the other, since governments are increasingly concerned about the social consequences of large-scale immigration of foreign workers and are taking a number of measures to regulate the phenomenon.

In *France* immigration has for many years been regarded in the context of an over-all policy to increase the size of the total population and not simply as a means of overcoming industrial labour shortages. However, the social problems connected with foreign immigrants led the Government to adopt a set of regulating measures in 1972 and 1973, with the aim of avoiding "wild" immigration and channelling immigrants to areas with the best opportunities for employment and integration.[13]

In *Austria*, where the rate of growth of output and labour demand have been sustained since 1969, the annual average number of foreign workers "under quota" was four times higher in 1973 than in 1969 (almost 230,000, as against 54,000). The largest annual increases in this period took place in 1971 and 1972, 59,000 and 54,000 respectively; in 1973 the increase was 40,000. The "quota" of foreign workers admitted is established yearly in the light of cyclical developments (labour demand by individual firms, local unemployment, etc.), but other, longer-term, objectives are also taken into account.

In *Sweden* the effects on migration of the recession from 1970 to 1972 were more marked than in the previous recession (1966-1967). In 1966-1967, low demand for labour put a brake on new arrivals: there were no mass repatriations, but rather a stabilization of the number of foreign workers. The response to the revival of labour demand in 1968-1970 was immediate, the number of foreign workers increasing by 55,000, or 32 per cent, between September 1968 and September 1970. Falling labour demand in 1971 and 1972 provoked a net departure of foreign workers: their number declined by 11,000 between the end of 1970 and the first half of 1972.[14] With the recovery of labour demand in 1973, immigration picked up again and the number of foreign workers rose by almost 13,000 between June 1972 and September 1973, reaching a peak of 231,000.

The *Federal Republic of Germany* is the country where the correlation between immigration and the business cycle is most evident. This is a corollary of the policy of closing labour market gaps with "guest workers", who are not expected to cause a significant pressure on infrastructures and who would return home if and when the labour shortage disappeared. The 1966-1967 recession led to the net repatriation of a considerable number of immigrants, the number of foreign workers falling by 300,000, about one-quarter of the total, between September 1966 and September 1967. This figure is higher than the increase in domestic unemployment in the same period. This repatriation has been described as a form of "exported unemployment" but, because of its short duration, it had more the character of an extended holiday.[15] Immigration responded quickly to the revival of labour demand in the following years: the number of foreign workers almost doubled between September 1967 and September 1970, from 990,000 to 1,950,000, and increased by another 300,000 in 1971. The pause in the rhythm of economic activity in 1971 had a delayed reaction on labour demand and consequently on immigration. There was no mass repatriation of immigrants, but immigration proceeded at a slower pace: the increase in the number of foreign workers between September 1971 and September 1972 was just above 100,000. An interesting feature is that the net immigration continued to increase in 1971 and 1972, in spite of the declining level of employment and of rising domestic unemployment. This is a clear indication of the existence of structural gaps in the domestic supply of labour and of the "mismatch", or failure of manpower supply to meet the requirements of available jobs. The revival of economic activity in 1972 again witnessed a large increase in net immigration, the number of foreign workers rising by almost 250,000 between September 1972 and September 1973.

According to preliminary estimates, the number of foreign workers in the Federal Republic of Germany fell by some 150,000 in the fourth quarter of 1973. It is not clear how much of this reduction is due to the effect of slackening labour demand and how much to policy measures not entirely related to the cycle. At the end of November, in connexion with the unexpected consequences of the new energy situation, the Government called for an immediate halt to the further recruitment of workers from countries outside the Economic Community; but in June the Government had already passed a programme designed to slow down the as yet unrestricted inflow of foreign workers, in view of the social costs arising from the high concentration of immigrants in certain regions and occupations, and from social problems of integration.

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[13] No quantitative information about the net arrivals of foreign workers is available for France.

[14] Departures in connexion with a recession are not a normal feature in Sweden which is more inclined to receive immigrants disposed to settle with their families rather than "guest workers". Departures seem to have affected immigrants of recent arrival, who never had time to get firmly established before labour demand fell off.

[15] See, United Nations, *Economic Survey of Europe in 1967*, 19 and B. Kayser, *Cyclically determined homeward flows of migrant workers*, OECD, Paris 1972.

There is a general long-term orientation in labour-receiving countries towards restricting and regulating immigration. However, to reduce or halt immigration may prove to be a difficult task. The example of Switzerland is instructive. In this country, a reduction of the foreign population has been a long-term policy objective for the last decade. Nevertheless in the period 1964-1973 the foreign population, instead of declining, has increased by 290,000 (by 330,000 including seasonal and border-crossing workers, on whom the economy of the country is highly dependent). The rate of increase has accelerated since 1970, when the policy of restriction became more severe. In 1969-1973 the number of "controlled" foreign workers (subject to annual work permits, seasonal and border-crossing workers) declined by 38,000 but at the same time the number of permanently established workers increased by 124,000. In the same period the total foreign population subject to annual residence permit has declined by 152,000 (excluding the increase in seasonal and border-crossing workers, 54,000 and 37,000 respectively), but the permanently established foreign population has risen by 260,000.[16]

THE OUTPUT DECELERATION OF 1973

It was not to be expected that industrial production would continue to expand for very long at the rates prevailing in the last quarter of 1972 and in the first quarter of 1973, that is, at an annual rate of more than 12 per cent per year, but the deceleration which followed was more abrupt than expected. In particular, industrial production rose only marginally after the first quarter of 1973 in the Federal Republic of Germany and in the United Kingdom. In Austria, France, the Netherlands and Norway output continued to expand but at a reduced rate. Only in Italy and Sweden was there some acceleration during the year. A sizeable output deceleration after the first quarter of 1973 also occurred in the United States (table 1.5).

One reason for this output deceleration in 1973 is to be found in localized supply bottlenecks both in western Europe and in the United States. For instance, in the west European countries, except the United Kingdom, the steel industry was reported to have been working at very near to full capacity in the second half of 1973. In the United States, capacity ceilings were reached early in 1973 by the automobile industry and were approached by some other industries especially those producing industrial materials. Localized shortages of materials and of skilled labour were reported also by a number of west European countries. On the whole, however, the impression remains that the resource constraints in early 1973 were not as severe as in previous cyclical upswings. In the second half of the year, the over-all degree of capacity utilization in industry was declining in a number of countries and stocks of final products were increasing.[17] It is therefore difficult to avoid the conclusion that the deceleration of output, which started in the second quarter of 1973 and affected capital as well as consumer goods, was more pronounced than can be explained by supply limitations alone.

The general climate of expectations in 1973 was not very favourable to an investment boom: the uncertainties on the exchange markets, sudden increases in the prices of many raw materials, the increasing social resistance to the continuing large scale immigration of foreign workers, and the expected policy implications of persistent inflation, were all factors which may have exerted a dampening influence on investment intentions. In addition, as already noted, fiscal and monetary policies became increasingly restrictive in a number of countries during 1973. The restrictive policy measures adopted by the individual west European Governments in 1973 and at the beginning of 1974 took three main forms: first, the curbing of private consumption (especially in the Federal Republic of Germany) through fiscal policy; secondly, the imposition of various types of credit rationing (as in Austria, Belgium, the Netherlands and Norway); and, thirdly, various measures which affected the construction sector (from administrative controls to the curtailment of Government investment and to monetary controls).

Thus, the cyclical upswing which began in 1972 was quite short-lived, as can be seen from chart 2, which shows—for the European OECD countries taken together—the deviation of manufacturing output from its linear trend for the period 1958 to 1973.[18] In the period under review, the first upswing in manufacturing output started in the first quarter of 1959 and reached its peak in the fourth quarter of 1960. A second (much shorter) upswing started in the second quarter of 1963 and reached its peak in the first quarter of 1964. However, economic activity continued to grow at a relatively high rate in 1961, 1962 and 1963; in this period it fell below the trend line only in one quarter. The "recession" between the peaks of 1960 and of 1964 hardly deserves the name. A second downswing started mildly in the second quarter of 1964 and only became pronounced in the middle of 1966; the turning point was reached in the first quarter of 1967. In the second quarter of 1967 a third upswing started which reached its peak in the first quarter of 1970. From that point began a new downswing which reached its turning point at the end of 1971. The present cycle started in the first quarter of 1972 and reached its peak in the first quarter of 1973, but in the second and third quarters of 1972 the growth rate was quite modest. It was only in the fourth quarter that a more vigorous revival took place, but this did not last for long. Already in the second

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[16] Département fédéral de l'économie publique, *La Vie économique*, Berne, various issues.

[17] See below, section 1 (ii).

[18] The chart is based on the quarterly indices of manufacturing production, seasonally adjusted.

TABLE 1.5

Industrial production: quarterly indices (1970 = 100) and annual percentage changes

(Seasonally adjusted)

Country	1971				1972				1973				Annual percentage changes		
	I	*II*	*III*	*IV*	*I*	*II*	*III*	*IV*	*I*	*II*	*III*	*IVe*	*1971*	*1972*	*1973*
Austria	106	106	106	107	109	113	114	123	116	120	122	123	6.1	8.2	4.7[a]
Belgium	103	103	104	103	108	109	109	115	116	114	113	119	2.6	6.6	5.5
Denmark[b]	101	103	103	102	110	110	109	114	..	..	..	..	3.3	5.9	..
Finland	89[c]	105	106	105	110	112	112	119	115	114	117	121	1.4	12.0	2.8[d]
France	104	103	107	109	111	112	115	117	122	122	125	124	5.6	7.1	8.3
Germany, Federal Republic of	102	103	102	100	104	105	105	109	113	114	113	115	1.8	3.8	7.4
Ireland	104	104	103	107	107	106	109	114	121	119	118	121	4.2	4.3	9.9
Italy	100	99	100	101	103	104	102	108	104	115	117	121	—0.1	4.2	9.7
Netherlands	106	106	108	110	113	115	116	120	122	123	125	127	6.9	8.6	7.4
Norway	102	103	103	104	105	106	106	108	110	110	112	114	3.8	3.6	4.4
Sweden	103	101	100	101	102	102	106	107	109	111	114	117	0.9	2.6	7.6
Switzerland	101	101	101	103	105	102	103	106	110	107	109	112	2.1	2.1	5.4
United Kingdom	100	101	100	100	97[c]	102	103	106	110	110	111	110	—0.1	1.6	8.9
Canada	102	104	106	108	110	112	111	117	120	122	121	124	5.1	6.8	8.3
United States	99	100	100	101	103	107	109	113	115	117	119	119	0.1	7.9	9.0
EEC	102	102	103	103	105	107	107	111	114	116	116	117	2.4	4.6	8-8.5
Industrial Europe (13 countries)	102	102	102	103	105	107	107	111	114	115	116	117	2.5	4.6	7.5-8

Sources: OECD, *Main Economic Indicators*; and national statistics.

NOTE. — Construction excluded.

[a] The 1973 increase in terms of national accounts is an estimated 5.8 per cent.

[b] Volume of sales in manufacturing, seasonally adjusted. Yearly data refer to the value added in manufacturing.

[c] Affected by strike.

[d] Industrial production in Finland increased, according to the preliminary index, by about 3 per cent in 1973. However, it is stated that the preliminary data have regularly proved 3-4 per cent lower than the final data. The expected increase is some 6 per cent.

and third quarters of 1973 there was a new deceleration of economic activity and by the end of the year the output index was virtually on the trend line for the European OECD countries taken together. The present cycle was more modest than both the 1959 and 1968 upswings, and was in a sense similar to the 1963-1964 upswing. However, the starting point was different. When the 1963 upswing started, economic activity was already above the trend line while the present upswing started when it was considerably below. Therefore the strain on resources was considerably less than in either 1964 or 1969; this point is taken up in the following section.

For the individual west European countries, the deviation of manufacturing output from the respective long-term trend is shown in chart 1 for the period 1967 to 1973. At the end of the third quarter of 1973, the actual level reached by manufacturing production was below the trend line in most west European countries except for Austria, France and the United Kingdom.

(ii) Demand pressures and capacity utilization in industry

In order to judge the prospects for 1974 it is important to have a clear view of the situation at the end of 1973 with regard to demand pressures and capacity utilization as a basis for assessing the need for restrictive policies and the scope for further expansion. Short-term indicators of these variables are not readily available through the national accounts. However, in recent years there has been an increasing use of *Business Surveys* which are based on questionnaires to enterprises, mainly in industry.[19]

There are three variables of the Business Test which seem to be connected in a systematic way and which are of particular interest for the evaluation of the business cycle position of industry (or any branch of industry): capacity utilization, inventories of finished goods and orders[20] (all ex-post). The rate of capacity utilization can be taken as representative of the business cycle itself (or as a coincident variable). The other two variables, i.e. inventories of finished goods and orders, indicate demand pressures. When a boom is developing there is a depletion of inventories that becomes more accentuated the more enterprises approach full capacity utilization. Likewise order-books increase as delivery periods become longer and various bottlenecks appear towards the peak of the boom. Similar relationships can be assumed to exist in other phases of the business cycle.

Chart 3 represents the three variables of eight countries for which information is available. The top graph represents percentage capacity utilization; the judgement on orders and on inventories of finished products are plotted below on the same scale. A positive number for the orders series indicates that the (weighted by size of enterprise) majority of enterprises judge the orders to be abnormally large. A rising curve can thus be taken to represent a continuous fattening of order books. Negative numbers for the inventory series indicate that a (weighted) majority of enterprises judge inventories of finished goods to be too small. A coincidence of a positive and rising orders curve and a negative and falling inventory curve might be interpreted as showing demand to be increasingly in excess of deliveries from current production. Enterprises cannot meet incoming orders although they are delivering not only from current production but also from inventories that are already abnormally low. Such a period of excess demand should also be characterized by rapidly increasing capacity utilization—provided of course that the information obtained is consistent. The levels of capacity utilization reached would depend upon the intensity and duration of the excess demand and would have implications both for price developments and the balance of trade.

The graphs can be used to pinpoint the business cycle position of industry in each of the countries discussed thus providing a rough international comparison. For each country an intertemporal comparison is also possible, e.g., between the intensity and duration of the present business cycle phase and of the corresponding earlier phase. It is of particular interest here to show the cyclical position of countries at the end of 1973.

One would expect the order and inventory curves to intersect approximately at the horizontal axis (zero-axis) of the graph since they both represent a normal demand situation. This is actually the case for most graphs, which indicates a certain consistency in the replies to the questionnaires. Naturally this will not happen in all cases. For some countries there is, for example, a tendency for the intersections to be above or below the horizontal axis. The pattern is, however, clear enough to allow a certain standardized interpretation.[21] Periods of excess demand will thus be taken to start at the intersections of the two curves where the order curve is moving in an upward direction and the inventory curve in a downward direction. This period will be taken to last to the point of intersection where the curves move in the opposite direction.[22] To facilitate the reading of the graphs the periods of excess demand have been marked as shaded areas.

The eight countries, broadly speaking, fall into two categories. In Spain, France and Belgium a significant gap of "excess demand" had opened up already in 1972 and was maintained during 1973. At the end of 1973, however, the gaps showed a tendency to close. This tendency is corroborated by the developments of the level of capacity utilization, which flattened out or was falling during the last quarter of 1973.

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[19] The answers to the questionnaire (quarterly or monthly) are qualitative and usually concern judgements about a variable, for example, as to whether it is "increasing", "unchanged" or "decreasing" or is "above normal", "normal", or "less than normal". The information is thus usually obtained as a three point (weighted) percentage distribution that can be processed in various ways. The simplest method is to calculate the "net tendency" which is the difference between positive and negative answers (e.g. between "increases" and "decreases").

[20] "Orders" here refer to order-books or to the total stock of outstanding orders.

[21] The original series have been retained which means that some are on a monthly and some on a quarterly basis. Series on a monthly basis naturally give a less smooth development than the quarterly ones but nevertheless show a remarkable consistency in the direction of their development over time.

[22] When the points of intersection are not located near the horizontal axis they will nevertheless represent a compromise between using either the order stock curve or the inventory curve as an indication of a balanced demand position (i.e. where each curve crosses the horizontal axis).

In Austria, Sweden, Switzerland and the Federal Republic of Germany, there have been short periods of small "excess demand" which have not lasted very long. This is also indicated by the level of capacity utilization which did not reach the peak of the previous boom. In the Federal Republic of Germany the miniboom has not only ended but has been followed by a situation where inventories of finished goods in industry are judged too large and total orders as abnormally small. In this sense the Federal Republic of Germany is "leading" the eight countries discussed here with regard to their location on the business cycle.

In *Spain* the gap of "excess demand" had opened up at the beginning of 1972. It has been much larger than in the previous boom, i.e., in 1969-1970. Capacity utilization has also reached significantly higher levels than ever registered before by this type of information.

France is showing almost the same picture as Spain. An early take-off in 1972 led to the rapid development of "excess demand" in 1973. But this "gap" did not become as large as in 1969/70 and followed a period of relatively modest "deficit demand". Consequently capacity utilization does not show any pronounced oscillation but rather a steady upward trend. In national accounting terms the counterpart to this picture is a steady growth in GNP being maintained during recent years.

In *Italy*, on the other hand, capacity utilization shows a downward trend until the beginning of 1973. Italy is a little difficult to place because of particular developments in 1973 (strikes) and the consequences of a long period of "deficit demand" in 1970-1972. Under such circumstances a gap of excess demand (of bottlenecks) can occur although there is not really a boom situation in terms of capacity utilization. Capacity utilization has been increasing lately but it is still significantly below earlier peaks.

Belgium has also been characterized in 1973 by excess demand although it was moderate, and tending to diminish towards the end of the year. Capacity utilization has increased but with a tendency to fall before the previous peak has been reached.

In *Austria* the "miniboom" had already ended in the middle of 1973, after which current demand seems to have remained in balance. Capacity utilization has tended to decline; it has, however, stayed relatively high compared with earlier boom levels, since the preceding slump period was of rather short duration and not very pronounced. From a long-term point of view, Austria rather resembles France in that a fairly balanced development has been assured at a relatively high degree of capacity utilization.

In the three remaining countries there is hardly a sign even of a "miniboom". In *Switzerland* there seems to have been a balanced over-all demand position in industry during 1973 although bottlenecks occurred in some particular industries as well as some other sectors such as construction. In *Sweden* a small gap opened up in the third quarter of 1973 which, however, started to shrink towards the end of the year. Consequently there was a flattening out of capacity utilization at a level considerably below that reached in the previous boom.[23] In the *Federal Republic of Germany* an approximately balanced demand position during the first half of 1973 turned into a moderate "deficit demand" situation towards the end of the year. Capacity utilization has flattened out at a level below the previous peak during the boom 1969/70.[24]

Generally speaking the picture given by the graphs for the eight countries is one of an upswing which appears to have been dampened at an earlier stage than the preceding boom. France and Spain are exceptions in the sense that capacity utilization reached higher levels than in the previous boom; but even in these two cases there is evidence that the situation was also stabilizing at the end of 1973. Elsewhere over-all capacity utilization has not been excessively strained. In Sweden and Switzerland there was no boom at all in the sense that there was hardly any excess demand at all in 1973. In Austria and the Federal Republic of Germany a small "miniboom" petered out during 1973 as capacity utilization fell or flattened out. These data concerning industry seem to agree with GNP data that by the end of 1973, and before the oil crisis had any effect, demand factors in several countries were dampening and making the expansionary phase one of unusually short duration and intensity. There is also evidence that neither excess demand nor over-all supply conditions (i.e. capacity restrictions) can account for the much larger price increases that occurred in comparison with the economic expansion of 1969/70. It should be observed, however, that bottleneck situations have occurred with regard to various types of skilled labour as well as certain material inputs. (This is borne out by SURVEY information concerning some individual branches of industry.) The latest boom seems to have been particularly characterized by these types of sectoral imbalances which have created overheating in the economies and set the stage for a cost-push inflation.

(iii) Prices and labour costs

The outlook for prices at the beginning of 1973 was not very optimistic. Following the second half of 1972 the immediate prospects were for a sharp rise in industrial raw material prices and, possibly, a deceleration in the rapid growth of food prices which had occurred through

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[23] In the case of Sweden, firms were simply asked whether they were working at full capacity or not; the percentage represents the (weighted) share of firms that reported full capacity utilization.

[24] There is some additional information available on capacity utilization for some countries not shown in the graph. For the *United Kingdom* capacity utilization was falling in the fourth quarter of 1973 from a peak in the third quarter that was at about the same level as the previous peak in 1969. In *Canada* a peak was reached at the beginning of 1973, also at about the same level as in the previous boom. In the *United States* capacity utilization increased continuously from the beginning of 1971 but was still, in the middle of 1973, well below the previous peak reached in the middle of 1968. It was, however, at a very high level in the major materials industries.

CHART 3

Judgements on capacity utilization, total orders and stocks of finished goods in manufacturing

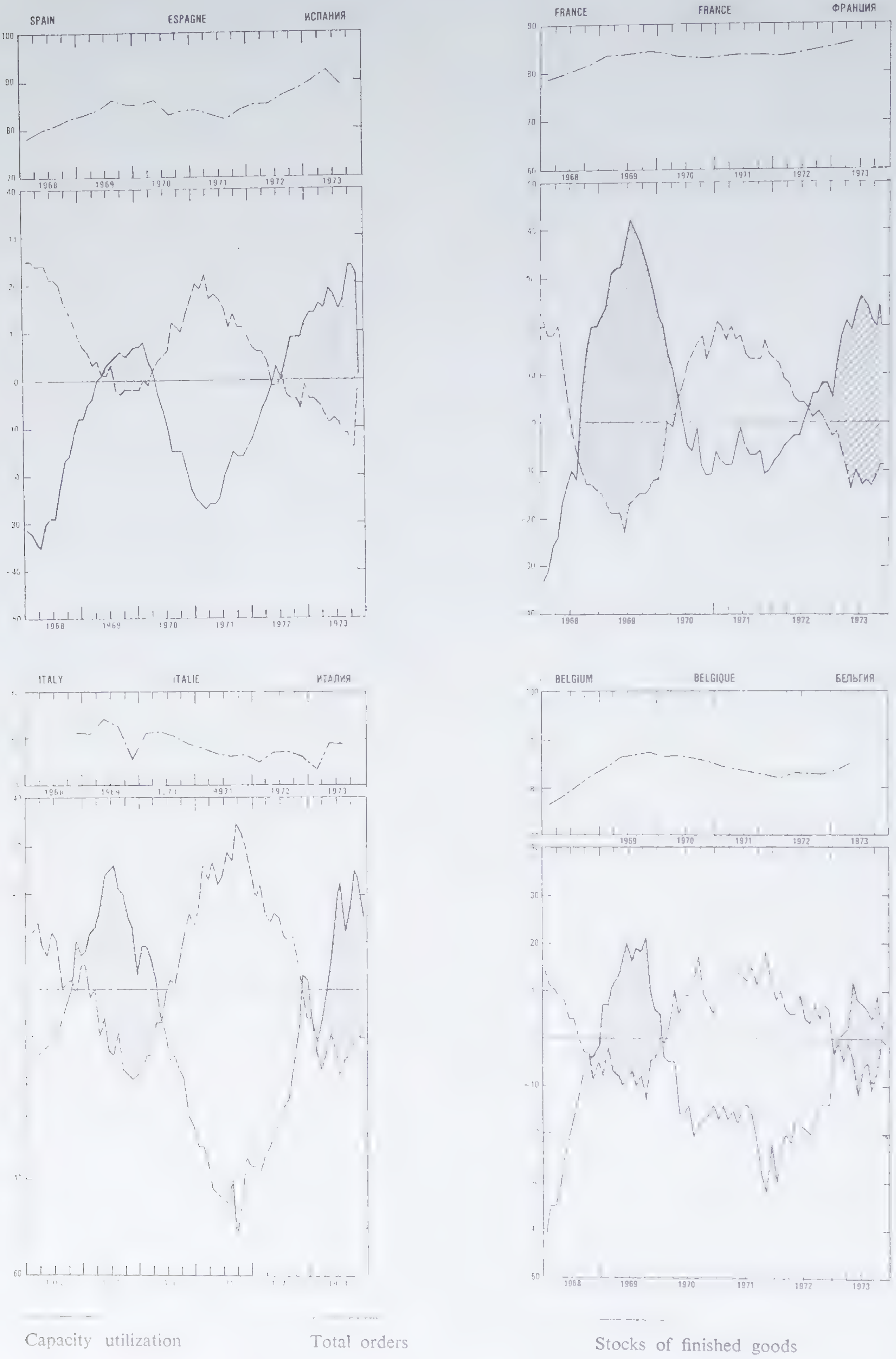
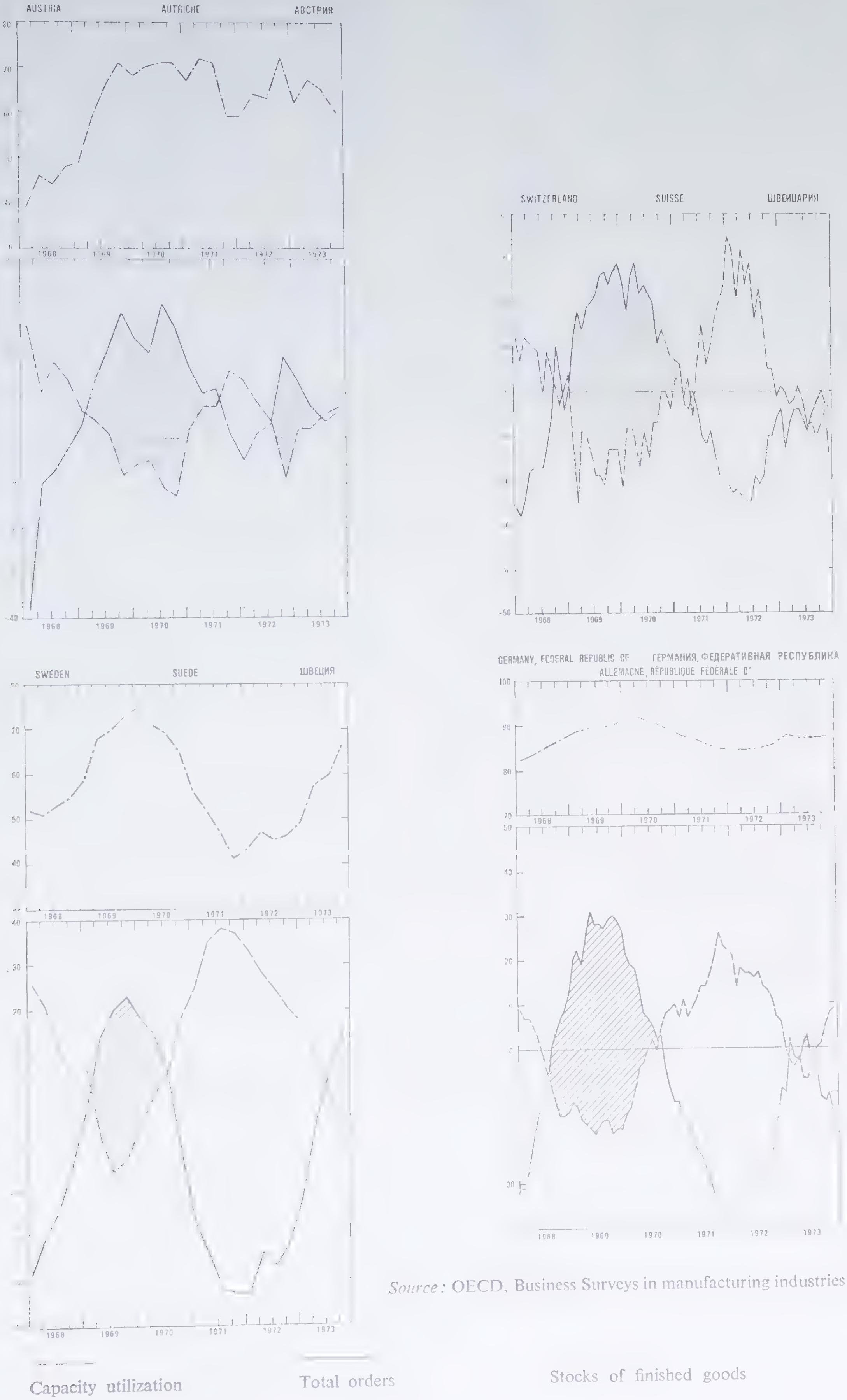


CHART 3 *(continued)*



Source: OECD, Business Surveys in manufacturing industries.

1972. In the event the average rate of increase[25] in western Europe accelerated sharply and in the third quarter of 1973, that is, before the outbreak of the Middle East war in October with its ensuing consequences for oil supplies and prices, consumer prices were nearly 9 per cent above the corresponding period of 1972. A similar acceleration occurred in North America and in Japan.

The implicit *price deflator of GDP* rose on average in western Europe by about 8.9 per cent in 1973 compared with 7.3 per cent in 1972 (text-table). Individual country rates ranged between 6 per cent in the Federal Republic of Germany and over 13 per cent in Finland and Ireland, but the over-all variance was relatively low with most countries lying between 6 and 8 per cent. The sharp acceleration between 1972 and 1973 was fairly general and was particularly sharp in Italy and Norway. In the United States the acceleration was also very sharp from an annual increase of 3.2 per cent in 1972 to 5.3 per cent, but the latter was still well below the lowest European rate.

Implicit price deflator of GDP (at market prices)

(Annual percentage change)

Country	*1971*	*1972*	*1973*
Austria	5.8	6.7	9.0
Belgium	5.7	5.9	6–7
Denmark	5.6	8.4	10.3 [a]
Finland	6.8	8.5	13.6
France	5.3	5.6	6.8
Germany, Federal Republic of	7.9	5.9	6.0
Ireland	10.8	11.4	13.3
Italy [b]	6.6	5.9	10.5
Netherlands	8.7	8.9	8[b]
Norway	5.8	4.5	9.1
Sweden	7.2	6.2	7.2
Switzerland	9.4	9.1	8.2
United Kingdom	8.9	7.7	7.4
United States [b]	4.7	3.2	5.3

Source: as for table 1.1.

[a] Gross-gross concept.

[b] GNP.

The rate of increase of *consumer prices* rose sharply in north-western Europe from an average 6.6 per cent in 1972 to 8.6 per cent in 1973; in the United States the rate increased from 3.3 per cent to 6.1 per cent and in Japan it more than doubled from 4.5 per cent in 1972 to nearly 12 per cent. In southern Europe, which is considered separately in section 4, the rates of consumer price increase were, with the exception of Greece, already much higher than in northern Europe in 1972; and in 1973 there was a further sharp increase. The largest increase in consumer prices in western Europe occurred in Greece where they rose by about 14 per cent compared with 4.9 per cent in 1972, which was then the lowest rate.

Some of the inter-country differences in inflationary pressures are probably obscured to some extent as a result of the widespread application of price controls in the last few years. These have been applied in a somewhat "stop-go" fashion—intensified use in 1971, relaxation or abandonment in the first half of 1972, reimposition in the second half of 1972, intensified and extended use in 1973—and have varied in nature from country to country. They have included total but temporary price freezes in the United Kingdom and the United States (and Denmark from January 1974), partial freezes, usually of basic foodstuffs and other necessities, as in Italy, as well as prior notification of selected or of all price increases. These and other measures, such as food subsidies in some countries, have a direct impact on movements of the consumer price index, but their continued use has probably led to the substitution of "hidden" price increases which are not reflected in the indexes—for example, a deterioration of the quality of goods and services supplied at a given price, reduction or elimination of discounts and dividends, longer queues (at banks, for example) and even the disappearance or severely curtailed supplies of some goods subject to control. The acceleration of the rate of increase of consumer prices in 1973 began well before the monopolistic pricing and supply policies of the Arab oil producers took effect in the last quarter of the year. The average rate of consumer price rise had stabilized in the first half of 1972 and in some countries there had been a slight fall in the second quarter; but from the third quarter of 1972 through the fourth of 1973 there was a fairly steady rise in the rate of increase, a slight deceleration in some countries in the third quarter of 1973 (reflecting partly a sharp seasonal fluctuation in food prices but also, and perhaps more important, the application of price controls particularly on foodstuffs) preceding the generally sharp upturn in the final quarter (table 1.6). Much the same pattern of development occurred in Japan and in North America. In the United States the acceleration was particularly rapid from 3.5 per cent in the last quarter of 1972 to 8.4 per cent in the last quarter of 1973, but this rate still remained below the European average, although the difference between the two narrowed sharply throughout the year. The longer-run relations between average European rates of inflation and those in the United States and Japan are shown in chart 4. Consumer price inflation in the United States has traditionally been much lower than in western Europe, the US rate being higher than the European average only in 1968-1970. Japan, on the other hand, has traditionally experienced not only a higher rate of domestic inflation than the west European average but also a more unstable one.

Although the acceleration of price inflation was general there was a tendency for the intercountry variance of rates of increase to rise again in 1973. The intercountry differences among the west European countries had previously fallen continuously from 1968 through 1972 to the point where the average increase of 7.1 per cent in the last quarter of 1972 had a standard deviation of only 0.71; at this level of variance many of the bilateral differences between individual countries are probably within the margin of error of any comparison between non-identical national price indexes.

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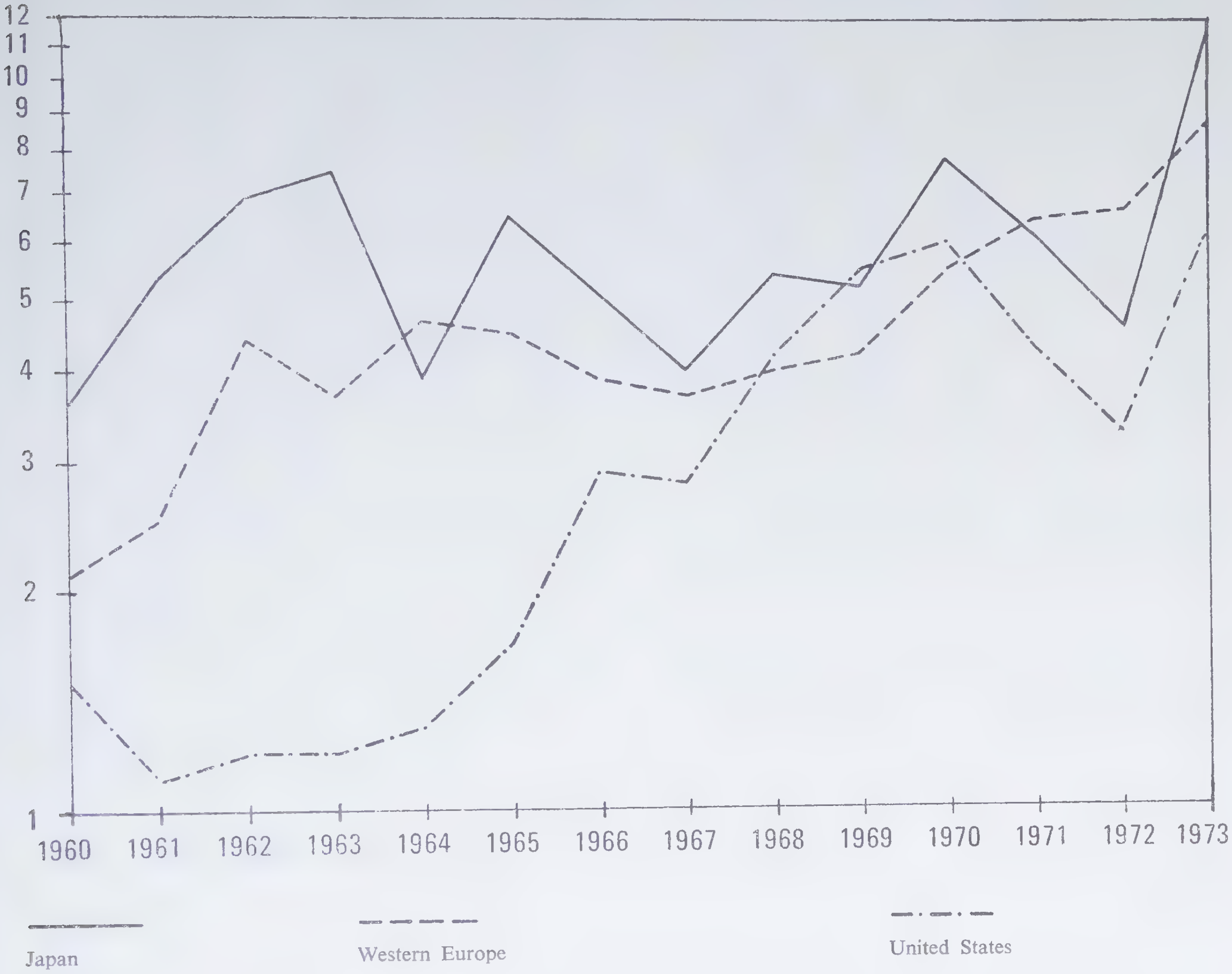
[25] Unless stated otherwise, averages of countries in this section are unweighted.

CHART 4

Consumer price changes, 1960-1973

(Percentage change over previous year)



Source: OECD, *Main economic indicators, Paris.*

NOTE. — "Western Europe" refers to the unweighted average of 13 countries; 1973 refers to the average of the first three quarters.

TABLE 1.6

Annual and quarterly changes in consumer prices

(Percentage change over corresponding period of previous year)

Country	*1971*	*1972*	*1973*	*1972*				*1973*			
				I	*II*	*III*	*IV*	*I*	*II*	*III*	*IV*
Austria	4.7	6.3	7.6	5.7	6.0	6.3	7.4	7.9	7.8	6.9	7.6
Belgium	4.3	5.5	7.0	5.2	5.0	5.5	6.1	6.9	7.2	6.8	7.0
Denmark	5.9	6.5	9.3	6.4	6.4	6.5	7.0	7.5	8.6	9.6	11.4
Finland	6.5	7.1	11.7	6.7	7.8	7.0	7.1	9.2	9.5	13.4	14.6
France	5.5	6.2	7.3	5.7	5.5	6.2	6.8	6.5	7.1	7.6	8.3
Germany, Federal Republic of	5.3	5.5	6.9	5.3	5.0	5.6	6.2	6.5	7.3	6.9	7.3
Ireland	8.9	8.7	11.4	9.3	8.0	8.9	8.2	10.0	11.7	11.2	12.6
Italy	4.8	5.7	10.8	4.8	5.0	6.0	7.2	8.8	11.1	11.6	11.7
Netherlands	7.5	7.8	8.0	7.9	7.8	7.4	8.1	7.7	8.2	8.2	8.0
Norway	6.2	7.2	7.5	6.1	7.1	7.9	7.7	7.4	7.8	7.0	7.5
Sweden	7.4	5.9	6.7	5.0	6.5	6.4	5.8	6.0	6.7	6.5	7.7
Switzerland	6.6	6.7	8.7	6.6	6.5	6.6	7.0	7.7	8.2	8.3	10.7
United Kingdom	9.4	7.1	9.2	8.0	6.2	6.5	7.7	7.9	9.3	9.2	10.3
West European average	*6.4*	*6.6*	*8.6*	*6.4*	*6.4*	*6.7*	*7.1*	*7.7*	*8.5*	*8.7*	*9.6*
United States	4.3	3.3	6.1	3.5	3.2	3.1	3.5	4.1	5.5	6.9	8.4
Canada	2.9	4.8	7.6	4.8	4.3	4.8	5.2	5.9	7.3	8.2	9.0
Japan	6.1	4.5	11.7	4.3	4.6	4.5	4.5	7.1	10.5	12.8	16.4

Sources: national statistics and OECD, *Main Economic Indicators*, Paris.

This widening of intra-European rates of price inflation is most probably due to differences in the movements of effective national exchange rates, which increased the differential impact of the world commodity price boom (particularly of industrial raw materials) on national economies, and to differences in the degree of price control, particularly of food, the largest single item in most national price indexes.

Instead of decelerating in 1973, *consumer food prices* rose on average in western Europe by 9.3 per cent compared with 6.9 per cent in 1972 (table 1.7) higher than the rise in all consumer prices. The rise was particularly sharp in the first half of the year, but there was some deceleration in the second half reflecting better supplies and the widespread introduction of price controls. The reasons for this continued rise were largely those which provoked the 1972 rise. The bad harvests of 1972 led to sharply rising prices in the first half of 1973, and although the 1973 harvests were record, world grain stocks were at their lowest level for 25 years. Feed-grains and other feeds such as fish meal were also in short supply leading to sharply higher prices for beef and other meat products.

Supply shortages have also been exacerbated by price controls (including freezes) on food products; in the United States farmers faced with rising feed prices and frozen retail prices reacted by cutting back on livestock numbers—after the ending of the freeze in July food prices rose considerably.

The impact of rising food prices on domestic price inflation is shown in table 1.8 which sets out the proportionate contribution of the rise in food prices to the total rise in each national consumer price index. In 1972, food prices accounted, on average, for about two-fifths of the total rise in consumer prices and the average proportion in 1973 was slightly higher; but in the second quarter of 1973 the average proportion was about 45 per cent and for five of the west European countries in table 1.8 as well as for the United States and Canada it was more than 50 per cent. Moreover the relative price of food rose so that its contribution to the over-all price rise was generally greater than its weight in the various indexes—this was true for nine of the 16 countries in table 1.8 in 1972, but in the first half of 1973 the only exceptions were the Federal Republic of Germany, the Netherlands and Switzerland. The relative increase of food prices was greatest in the United States, its contribution to the over-all price increase rising in the third quarter of 1973 to more than 2.5 times its weight in the index. These developments in the politically sensitive area of food prices in the first half of 1973 provide the essential background to the widespread introduction or intensification of price controls in 1973, often on foodstuffs alone, as well as other measures such as temporary relaxation of import controls and duties on foodstuffs, the introduction of food subsidies, the lowering of VAT rates on food at the expense of other products, and so on. The impact of these measures probably accounts in large measure for the sharp fall in relative food prices in the last quarter of 1973—in western Europe they were continuing to rise only in Denmark, France, Ireland and the United Kingdom. In North America and Japan the relative price rise continued in the last quarter, but showed signs of decelerating.

The effect of the rapid increase of *oil prices* in 1973 on consumer price indexes has probably been quite small.

TABLE 1.7

Annual and quarterly changes in consumer food prices

(Percentage change over corresponding period of previous year)

Country	1971	1972	1973	1973 I	1973 II	1973 III	1973 IV
Austria	3.6	6.2	7.5	8.8	8.9	6.5	5.9
Belgium	1.9	6.6	8.0	8.9	9.9	7.0	6.3
Denmark	4.9	7.0	11.0	8.8	10.6	12.0	12.4
Finland	4.1	9.0	11.2	11.6	11.1	12.8	11.5
France [a]	6.4	7.0	9.7	8.4	9.6	10.3	10.6
Germany, Federal Republic of	3.8	5.7	7.6	7.9	9.5	7.1	5.6
Ireland [b]	6.7	8.6	13.5	12.2	14.7	12.7	14.4
Italy [c]	4.0	6.3	12.0	10.6	13.3	12.7	11.7
Netherlands [c]	4.0	6.2	7.3	7.1	7.9	7.6	6.6
Norway	7.3	6.1	7.8	8.1	8.0	6.5	6.4
Sweden	9.3	7.6	6.9	6.9	7.7	6.1	6.4
Switzerland	6.2	6.7	6.3	7.8	6.6	5.2	5.6
United Kingdom	9.2	7.1	11.5	9.1	12.3	11.1	13.5
West European average	*5.5*	*6.9*	*9.3*	*8.9*	*10.0*	*9.0*	*9.0*
United States [d]	3.0	4.4	14.5	8.0	12.7	17.3	19.5
Canada	1.4	6.6	12.6	9.3	11.4	13.8	15.4
Japan	5.7	3.7	12.3	7.7	11.0	13.6	17.1

Sources: OECD, *Consumer Price Indices* (quarterly supplement to *Main Economic Indicators*) Paris; and national statistics.

[a] Excluding tobacco.

[b] Quarterly data refer to mid-February, mid-May, mid-August and mid-November; annual data are averages of these.

[c] Excluding restaurant meals.

[d] Excluding drink and tobacco.

TABLE 1.8

The contribution of food prices to the total rise in consumer prices

(Percentages)

Country	Weights, 1970	1972	1973	1973 I	1973 II	1973 III	1973 IV
Austria	39.2[a]	38.2	38.2	42.5	43.9	37.1	30.0
Belgium	41.6[a]	49.4	47.1	52.4	56.1	42.8	37.6
Denmark	32.3[b]	34.6	37.9	37.6	39.5	40.2	35.1
Finland	35.6[c]	43.7	33.7	43.4	41.6	34.2	28.0
France [d]	38.2	47.4	51.3	50.3	52.3	52.6	50.4
Germany, Federal Republic of	33.3	34.2	35.5	40.1	42.4	33.5	25.6
Ireland [e]	48.1[f]	47.2	55.7	57.0	59.1	53.6	53.5
Italy [g]	43.3	47.7	48.2	51.3	51.6	47.5	43.8
Netherlands [g]	35.1	26.8	30.6	31.5	32.0	30.8	27.6
Norway	33.7[f]	28.8	35.0	36.9	34.3	31.8	28.9
Sweden	36.5	47.5	38.2	43.0	42.9	35.2	31.3
Switzerland	36.0[a]	36.3	25.9	36.0	28.9	22.8	18.9
United Kingdom	42.8	42.6	53.1	49.1	55.0	51.5	55.5
United States [h]	22.2	29.4	51.6	43.7	50.8	56.5	52.0
Canada	31.1	45.0	52.6	52.6	51.5	52.8	52.8
Japan	43.1	35.2	44.7	46.4	44.9	45.1	44.4

Sources: OECD, *Consumer Price Indices* (quarterly supplement to *Main Economic Indicators*), Paris; and national statistics.

[a] 1966.

[b] 1964.

[c] 1967.

[d] Excluding tobacco.

[e] Quarterly data refer to mid-February, mid-May, mid-August and mid-November; annual data are averages of these.

[f] 1968 (for Ireland, mid-November).

[g] Excluding restaurant meals.

[h] Excluding drink and tobacco.

Most of the indirect effects,[26] which are the important ones, will only work through to higher consumer prices in 1974[27] when their impact is likely to be relatively greater due to lower rates of productivity growth. Oil prices were of course rising before the October war in the Middle East but their indirect effect on consumer prices was probably small, particularly given the generally very high rates of productivity growth in manufacturing industry in 1973. Higher oil prices affect the consumer price index directly mainly by raising prices of domestic heating oil and of gasoline for private and public transport. Both these items have relatively small weights in most indexes which means that the direct effects are likely to be small. Table 1.9 sets out increases in the consumer price of "fuel and light" for a number of countries and table 1.10 shows the percentage contribution of the rise in "fuel and light" prices to the total increase in consumer prices. The importance of direct consumption of petrol and oil for private motoring is very small and is not

TABLE 1.9

Annual and quarterly changes in consumer prices for "fuel and light"

(Percentage change over corresponding period of previous year)

Country	*1972*	*1973*	*1973*			
			I	*II*	*III*	*IV*
Austria	4.0	5.9	5.1	6.7	5.2	6.7
Denmark	0.2	14.3	6.2	8.2	11.4	30.8
Finland	4.3	8.8	3.2	6.1	9.4	17.2
France	2.8	4.0	1.8	2.4	3.5	8.4
Germany, Federal Republic of	4.5	16.4	7.9	10.2	16.1	31.1
Ireland	10.0	7.1	7.6	8.7	5.8	6.6
Italy	—	0.8	−1.6	−1.2	−0.4	6.5
Netherlands	4.3	4.6	2.7	3.0	5.1	7.3
Norway	5.5	6.7	4.0	4.7	6.7	11.1
Sweden	0.6	22.5	8.2	12.2	23.9	43.0
Switzerland	−2.6	29.1	7.7	15.8	27.9	63.4
United Kingdom	7.8	2.8	5.4	1.8	1.2	3.0
United States	4.2	7.0	4.5	5.4	6.2	11.0

Sources: national statistics.

TABLE 1.10

The contribution of "fuel and light" prices to the total rise in consumer prices

(Percentages)

Country	*Weight in national index*		*1972*	*1973*	*1973*			
					I	*II*	*III*	*IV*
Austria	5.6	(1966)	3.6	4.4	3.7	4.8	4.2	4.8
Denmark	4.2	(1964)	0.3	6.5	3.6	4.1	4.9	11.4
Finland	3.7	(1967)	2.5	2.9	1.5	2.5	2.7	4.5
France	5.3	(1971)	2.5	2.9	1.4	1.7	2.5	5.1
Germany, Federal Republic of	4.6	(1970)	3.6	10.8	5.5	6.2	10.4	19.4
Ireland	5.5	(1968)	6.6	3.6	4.4	4.2	3.1	3.0
Italy	3.5	(1970)	—	0.1	−0.6	−0.3	−0.2	1.7
Netherlands	5.1	(1969)	2.6	2.7	1.7	1.8	2.9	4.2
Norway	4.3	(1968)	3.3	3.8	2.3	2.5	4.1	6.2
Sweden	3.9	(1970)	0.5	12.6	5.2	6.9	13.9	21.3
Switzerland	6.0	(1966)	−2.4	18.7	5.8	10.8	18.2	34.0
United Kingdom	6.1	(1970)	6.7	1.9	4.1	1.2	0.8	1.9
United States	3.4	(1963)	4.4	4.1	3.9	3.6	3.2	4.7

Sources: national statistics.

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[26] That is, the effects of higher input prices on other items in the indexes and the secondary effects of another twist in the price-wage spiral.

[27] See section 2 below.

considered here (for example, the weight of these items in the consumer price index is 1.3 per cent in Switzerland, and about 2 per cent in the Federal Republic of Germany). Since fuel oil is only a sub-item of "fuel and light" table 1.9 will understate the actual rise in domestic oil prices since prices of solid fuels and electricity have generally risen by much less than fuel oil; but table 1.10 may overstate the contribution of oil prices to the over-all increase by over-weighting the oil price—the latter may thus be taken as maximum estimates of the direct effects of higher heating oil prices.

Consumer prices for "fuel and light" were generally much higher in 1973 than in 1972, the annual rate of increase tending to accelerate sharply through the year. There are, however, very large differences between individual countries which to some extent reflect likely variations in the importance of oil in domestic heating, but they also reflect different national policies with respect to oil prices and the extent to which individual countries actually had to buy oil at some of the very high market prices that were recorded in the last quarter of the year. The Federal Republic of Germany, Sweden and Switzerland show by far the largest rise in "fuel and light" prices and the latter two are both countries which buy the greater part of their petroleum *products* on the (residual) world markets. Most of the other countries except Finland[28] in table 1.9 have a much higher ratio of refining capacity to domestic needs and consequently would have had reserves of crude oil to dampen the immediate effects of the post-October crisis. However a major factor determining the impact of higher heating oil prices on the consumer price index in any given period is the existence or otherwise of direct price controls—in the Federal Republic of Germany there are no such controls, nor in Switzerland on heating oil, so the effect of the rise in fuel oil prices can be expected to come through on the index very quickly. In most of the other west European countries direct controls of various types either suppress some part of the potential price rise or, through compulsory notification requirements, for example, lengthen the time-lag between a given import price rise and its impact on the consumer price index. Italy is exceptional in that fuel and light prices appear to have fallen in the first three quarters of 1973—this is mainly the result of Government controls which resulted in only a slight increase in petroleum prices, and a slight fall in electricity prices; but this is misleading in so far as not all consumers may get fuel oil supplies at the official price.

The proportionate contribution of fuel and light to the over-all rise in consumer prices is shown in table 1.10. In 1972 relative prices of "fuel and light" fell in most countries thus exerting a breaking effect on the over-all rise. This is particularly noticeable in Switzerland and Sweden which were then benefiting from the much lower prices on the (residual) free market; but in 1973 the contribution of "fuel and light" immediately rose sharply in the first quarter of the year and rose steadily thereafter.[29] The contribution generally rose elsewhere, particularly in the last quarter, but compared with Sweden, Switzerland and the Federal Republic of Germany, the rise in the relative price of "fuel and light" was much less; indeed for several countries the relative price of "fuel and light" fell in 1973 as a whole. This is a somewhat crude arithmetical exercise, but it does suggest that apart from Sweden, Switzerland and the Federal Republic of Germany, the direct impact of higher oil prices on consumer prices has been very small, but this may to some extent reflect the relative severity of direct price controls.

As for the other major components of the consumer price index, rents and other service prices generally rose at about the same rate as the index as a whole while goods prices rose somewhat less (except in the Federal Republic of Germany in the third quarter). Goods prices were generally higher than in 1972 (except possibly in the United Kingdom) but they had a braking effect on the total index in that their proportionate contribution was less than their weight in the index.

Average *hourly earnings* generally appear to have risen slightly faster in 1973 than in 1972; for the nine west European countries in table 1.11 they rose in 1973 by some 13 per cent. Only in Sweden was there any deceleration in 1973, although in Austria there was a steady deceleration through the first three quarters of the year. However these money gains were quickly eroded by price changes—in 1972 the average increase in real hourly earnings was just over two-fifths of the rise in money terms, but in the first half of 1973 the real gain was only about one-third of the money gain. (This proportion, of real to money gain, ranges widely from about 15 per cent in Sweden to just over 50 per cent in Belgium.) Except for Norway and for the Federal Republic of Germany, the rise in 1973 real earnings appears to have been less than in 1972. For France, Italy, Netherlands and Switzerland only data on wage-rates in manufacturing or industry are available (table 1.12)—these also show an acceleration in the 1973 rate of increase in money terms in all four countries, but with real gains considerably less. In Switzerland, the rise in real hourly wage rates in industry in 1973 was minimal and less than 5 per cent of the money rise.[30] Except for Ireland, Sweden and the United Kingdom, unit labour costs for the total economy rose at a faster rate than in 1972 (and, on incomplete data this also appears to be true of manufacturing industry although the rise was less than for the total economy). Productivity rose at relatively high rates in 1973, and for manufacturing at higher rates than in 1972 (table 1.5).

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[28] Finland gets most of its oil from the Soviet Union under a long-term agreement. This has recently been renegotiated with the effect that higher oil prices will have a considerable effect on the Finnish consumer price index in 1974.

[29] For Switzerland heating oil accounts for just over one-third of the total weight of "fuel and light". Between January and December 1973 the other items in the group rose very little in price —solid fuels 4 per cent, gas 2 per cent, electricity 5 per cent—but that of heating oil rose 177 per cent. *Source:* Département fédéral de l'économie publique, *La Vie économique*, Berne, January 1974.

[30] According to the official annual wages and salaries survey, hourly *earnings* in industry and construction rose by 12.3 per cent in money terms and 2.3 per cent in real terms, between October 1972 and October 1973.

For the total economy there was some increase on the 1972 rate in Finland, France, the Federal Republic of Germany and, possibly, Ireland but elsewhere the fall was generally quite small. Again on incomplete data, the rise in producer prices (of consumer goods) appears to have been generally larger than the rise in unit labour costs, except in the Federal Republic of Germany, so profit margins probably rose in 1973.

TABLE 1.11

Annual and quarterly changes, in money and in real terms, of average hourly earnings in manufacturing

(Percentage change over corresponding period of previous year)

A = change in money terms B = Change in real terms [a]

Country	1971	1972	1973	1972 I	1972 II	1972 III	1972 IV	1973 I	1973 II	1973 III	1973 IV
Austria [b, c]											
A	13.6	11.6	12.7	7.5	10.1	12.4	15.2	12.7	11.9	10.0	16.0
B	8.5	5.0	4.7	1.7	3.9	5.7	7.3	4.4	3.8	2.9	7.8
Belgium											
A	12.3	13.9	16.1	12.4	13.4	14.6	15.0	15.6	17.1	15.3	16.3
B	7.7	8.0	8.5*	6.8	8.0	8.6	8.4	8.1	9.2	8.0	8.7
Denmark [d]											
A	15.1	12.1	15.6	14.3	12.7	10.6	11.1	11.1	14.4	17.1	19.4
B	8.7	5.3	5.8	7.4	5.9	3.8	3.8	3.3	5.3	6.8	7.2
Finland											
A	14.7	13.8	15.8	12.5	16.6	14.1	12.2	13.5	15.6	16.3	16.5
B	7.7	6.3	3.7	5.4	8.2	6.6	4.8	3.9	5.6	2.6	1.7
Germany, Federal Republic of [e]											
A	11.0	8.7	10.8	8.5	9.3	8.6	8.6	9.5	10.6	11.5	11.1
B	5.4	3.0	3.6	3.0	4.1	2.8	2.3	2.8	3.1	4.3	3.5
Ireland											
A	16.1	14.9	19.0	15.7	14.7	13.9	15.1	14.0	19.7	21.8	20.0
B	6.6	5.7	6.8	5.9	6.2	4.6	6.4	3.6	7.2	9.5	6,6
Norway [c, f]											
A	12.4	8.9	10.3	9.3	7.9	8.9	9.1	9.6	11.2	10.3	10.5
B	5.8	1.6	2.7	3.0	0.7	0.9	1.3	2.0	3.2	3.1	2.8
Sweden [c]											
A	10.8	11.2	8.0[g]	11.2	12.1	10.7	10.7	8.6[g]	7.0[g]	8.0[g]	8.4[g]
B	3.2	5.0	1.2	5.9	5.3	4.0	4.6	2.5	0.3	1.4	0.7
United Kingdom											
A	11.3	12.9	13.2	10.0[h]	11.7	12.7	14.8	13.3[h]	12.7	13.3	13.4
B	1.7	5.4	3.7	1.9	5.2	5.8	6.6	5.0	3.1	3.8	2.8
Canada											
A	9.0	7.9	8.7	7.2	7.3	8.2	8.2	8.5	8.9	8.4	9.1
B	5.9	3.0	1.0	2.2	2.9	3.2	2.9	2.5	1.5	0.2	0.1
United States											
A	6.2	6.6	6.9	6.0	6.3	6.6	7.6	6.9	6.5	7.1	7.0
B	1.8	3.2	0.7	2.4	3.0	3.4	4.0	2.7	0.9	0.2	−1.3

Sources: national statistics.

[a] Change in money terms deflated by change in consumer prices.

[b] Monthly earnings.

[c] Includes mining.

[d] Includes construction.

[e] Quarterly data refer to January, April, July and October, respectively.

[f] Males only.

[g] Possible retroactive supplements excluded.

[h] Based on January and March (labour stoppages in February 1972).

TABLE 1.12

Annual and quarterly changes, in money terms and real terms, of average hourly wage rates in manufacturing

(Percentage change over corresponding period of previous year)

A = Change in money terms B = Change in real terms [a]

Country	*1971*	*1972*	*1973*	*1972*				*1973*			
				I	*II*	*III*	*IV*	*I*	*II*	*III*	*IV*
France [b]											
A	11.2	11.3	14.1	11.0	11.0	11.2	11.6	12.7	13.3	14.7	15.6
B	5.4	4.8	6.3	5.0	5.2	4.7	4.5	5.8	5.8	6.6	6.7
Italy [c]											
A	13.5	10.4	24.3	9.0	8.8	10.6	13.0	15.1	24.2	28.3	28.7
B	8.3	4.4	12.2	4.0	3.6	4.3	5.4	5.8	11.8	15.0	15.2
Netherlands [d]											
A	11.7	12.5	13.6	13.8	13.0	12.2	11.5	12.2	13.4	14.3	14.5
B	3.8	4.4	5.2	5.5	4.8	4.5	3.1	4.2	4.8	5.6	6.0
Switzerland [e]											
A	9.6	8.8	9.1	9.1	9.0	8.7	8.5	9.3	9.0	9.0	9.2
B	2.8	2.0	0.4	2.3	2.3	2.0	1.4	1.5	0.7	0.6	−1.4

Sources: national statistics.

[a] Change in money terms deflated by change in consumer prices.

[b] Quarterly data refer to January, April, July and October.

[c] Excludes family allowance.

[d] Males.

[e] Industry.

(iv) Foreign trade and payments

FOREIGN TRADE

1973 was marked by an exceptionally fast expansion of the volume of world trade, an unprecedented rise in commodity prices, a further move towards floating exchange rates and substantial fluctuations in these rates, and large changes in the trade balances of most of the major economies. The increases in oil prices announced by the major producing countries towards the end of the year introduced a new, and potentially highly destabilizing, factor into international trade. As trade data for the final quarter reflect to some extent these oil price increases (as well as the supply restrictions),[31] this section covers only developments in the first three quarters of 1973. The effect of the increase in oil prices on western Europe's trade is examined in the section on prospects below (see section 3 of this chapter).

In the first three quarters of 1973 the *volume of world trade* (excluding the centrally planned economies) was some 13 per cent higher than in the same period of 1972, one of the highest rates in the post-war period. But although this rate of growth was about what would be expected from past relationships between import and domestic growth, the expansion of import demand was distributed very unevenly. In particular, Japanese imports increased much more, and United States' imports considerably less, than would have been expected from past experience. These developments are likely to have reflected the effects of the cumulative changes in exchange rates since 1971, although other factors also appear to have played a role.[32] In addition to the marked upturn in demand in western Europe, international trade was also boosted by strong demand from the developing countries and from eastern Europe.

The aspect of international trade that has attracted most public attention in western Europe over the past year has been the sharp rise in the *prices of primary commodities*. In brief, prices of several major commodities, particularly agricultural, began to increase quite sharply towards the end of 1972, this development gathering pace and spreading to most other commodities during the first eight months of 1973.[33] By August, the prices in terms of US dollars and sterling (the currencies in which most commodity prices are quoted) of the great majority of internationally traded commodities were substantially higher than the levels in recent years. The commodity price boom during the year to August 1973 was due to a number of factors, of which the most important would seem to have been: the poor harvests in several major producing areas in 1972; the rapid upturn of production in the industrial countries towards the end of 1972 at a time when stocks of industrial materials were generally low; interruptions to the supply of many commodities; an upward adjustment of dollar prices of some commodities following the Smithsonian Agreement; and speculative and precautionary demand engendered by currency uncertainties.

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[31] The statistics so far published show that the average unit values of imported oil began to rise sharply in October and November. It is likely to be some time, however, before the effects on the volume of oil imports of the cut-back in supplies and the oil embargoes can be identified in full.

[32] For instance, the release of metals from the US official stockpile.

[33] For an examination of the development of commodity prices up to the late summer of 1973, see *Economic Bulletin for Europe*, vol. 25, pp. 17-22.

In September, market prices of a number of major agricultural commodities declined somewhat, apparently in response to the improvement in the supply situation following the good harvests in the northern hemisphere. Prices of some metals were also lower, due possibly to the growing expectation of a marked slow-down in world industrial production in 1974. The strengthening of the US dollar on the foreign exchange markets may also have had some effect.

But this easing of prices proved short-lived, the rise resuming in October. The initial cause of this renewed upsurge appears to have been the outbreak of hostilities in the Middle East and the uncertainties caused by the major oil producers' policies concerning prices and supplies. Spot prices for most major metals rose dramatically in November and early December, but fell sharply in the middle of the month. Then, once again, prices began to rise and there has been a strong upward trend in the spot price of most metals during the first two months of 1974.[34] Prices of several important agricultural commodities, including wheat, maize and sugar, have also risen sharply in recent months.

The upsurge in commodity prices since October seems to have reflected speculative and precautionary demand stemming from currency uncertainties and inflationary expectations rather than basic demand/supply imbalances. Given the slow-down in world growth that has already begun, producers' demand for most primary commodities is likely to have weakened significantly. A major unknown factor at present is the amount of stocks held by speculators.

The third major development in international trade in 1973 was the further disintegration of the Bretton Woods system of fixed exchange rates. By the end of the year, several of the major currencies were floating against each other, although five of the original six members of EEC, together with Denmark, Sweden and Norway, were maintaining a joint float against other currencies. With the floating of the French franc in January 1974, the EEC plans for monetary union were suspended, at least temporarily.

The move towards floating exchange rates has generally been due to the difficulty of maintaining fixed rates in the face of large-scale capital movements, rather than an attempt to use exchange rate changes to restore balance-of-payments "equilibrium" (a term which, with the increase in oil prices, now has little significance). Nevertheless, changes in the effective exchange rates of the major currencies were, until the summer of 1973, in the direction required to reduce current account imbalances: depreciations of the US dollar, sterling and lira, and appreciations of the Deutschmark and the yen. These exchange rate changes contributed to substantial reductions in the United States and Japanese imbalances. In the first nine months of 1973 the United States recorded a small trade surplus (exports f.o.b. minus imports f.o.b.) compared with a $4.6 billion deficit in the corresponding period of 1972, while the previous Japanese surplus was eliminated. By contrast, the exchange rate changes had, if anything, a perverse effect on the trade balances of Italy, the United Kingdom and the Federal Republic of Germany. In the first nine months of 1973 the deficits (exports f.o.b. minus imports c.i.f.) of Italy and the United Kingdom were respectively $3.6 billion and $2.8 billion larger than a year earlier, while the Federal Republic of Germany's surplus rose by $4.7 billion. Other factors besides the exchange rate changes played a role in these large swings in trade balances: for instance, the United States benefited from exceptionally buoyant demand, and high prices, for agricultural exports, while Italy, the United Kingdom and Japan, being relatively large importers of primary commodities, were especially hard hit by the commodity price boom.[36] But even after allowing for these factors, the difference in the impact of exchange rate changes remains striking.

Given the fact that the direct effects on western Europe's trade of the swings in the trade balances of the United States and Japan were not very large (and were partly offsetting), the main impact of the above developments in world trade might have been expected to be a fairly pronounced deterioration in the region's terms of trade, since western Europe is a net importer of most major primary commodities. However, as measured by the United Nations indices (based on US dollars), western Europe's import unit values in the first three quarters of 1973 were about 20 per cent higher than a year earlier, while export unit values were up by some 18 per cent, implying a terms of trade loss of about 2-3 per cent for the region.[37] This deterioration simply reversed the gain in 1972. In the third quarter of 1973 the terms of trade were at the same level as in 1971 and were still marginally above the level recorded throughout the 1960s. As shown below, however, there were significant differences between the development of individual west European countries' terms of trade in this period.

The terms of trade loss was partly offset by a faster expansion in the volume of western Europe's exports than of its imports—increases of some 14 per cent and 12 per cent respectively, in the first three quarters of 1973 over

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[34-35] For instance, the London Metal Exchange cash price for tin, which had increased from about £1,600 per ton at the beginning of 1973 to £2,200 per ton at the beginning of October (at that time, an all time high) rose to over £3,000 in early December, fell to £2,400 by mid-December, and then started rising again; by the end of February 1974, the price had reached almost £3,500 per ton.

[36] Italy's exports were also affected by strikes in the first quarter and imports may have been inflated by stockbuilding in anticipation of the currency depreciation.

[37] See United Nations, *Monthly Bulletin of Statistics*, January 1974, special table B.

a year earlier. Exports were stimulated by buoyant demand in the rest of the world, especially in the developing countries and in eastern Europe. As a result of the exceptional volume growth of trade together with the large increases in dollar unit values, the value of trade in terms of dollars increased at remarkable rates: in the first nine months of 1973 both imports and exports were up by more than one-third on the level in the same period of 1972. The rates of increase of imports from all major regions of the world rose sharply in this period, with a particularly large acceleration for North America (see table 1.13).[38] But the most notable development was that western Europe's imports from the developing countries increased as rapidly as intra-west European trade. Furthermore, this was not attributable to oil, imports from the oil producing countries rising in this period at a slower rate than imports from the developing countries as a whole. It appears that exports of the more developed of the developing countries fared particularly well in the markets of the industrialized countries in 1973.

Western Europe's exports to all regions also increased, in terms of current dollars, at considerably higher rates than in the previous year, especially high rates being recorded in trade with China and Japan. The region's trade balance (exports f.o.b. minus imports c.i.f.) with the rest of the world worsened by some $4.6 billion, due largely to increases in the deficits with North America and with the developing countries.

The acceleration in the rate of growth of international trade in 1973 affected all west European countries. Nevertheless, the rates of growth of trade, as well as exchange rate changes and the impact of the commodity price boom, differed significantly between some countries.[39]

In most countries, imports paralleled the upturn in domestic demand that began towards the end of 1972 and continued at a high level in 1973. For Austria, Belgium, Denmark, Finland, France, Ireland, Norway and the United Kingdom, the volume of imports in the first nine months of the year was substantially higher than a year earlier. A particularly large rise occurred for Denmark and, possibly, also for Ireland. For Denmark, this may have been due in part to the removal of the import duty early in the year. The volume of imports was also up sharply in the Netherlands and Italy, although the pressure on resources was not particularly strong in either country.

By contrast, the increases in import volumes for the Federal Republic of Germany, Sweden and Switzerland were fairly modest. For all three countries the elasticity of import growth with respect to GDP in this period appears to have been significantly lower than in the other west European countries. For Sweden this was probably attributable to relatively weak domestic demand and under-utilized capacity. The relatively slow growth of German and Swiss imports is more puzzling. Capacity utilization was quite high in both countries and their currencies had appreciated over the past two years against all other currencies except the yen: in July 1973 the effective appreciation of the Deutschmark against its Smithsonian rate amounted to 25 per cent, and that of the Swiss franc to 18 per cent. In spite of these revaluations both countries also achieved large increases in export volumes, Switzerland by about 12 per cent and the Federal Republic of Germany by as much as 20 per cent, implying a significant increase in market shares.

Exceptionally large rises in the volume of exports were also recorded by the Netherlands and Sweden, both of which must also have increased their market shares. Austria, Belgium, France, Ireland and the United Kingdom increased their exports at around the average rate for the region, while those of Denmark, Finland and Italy rose somewhat more slowly. The marked slowdown in the rate of expansion of Finland's exports in 1973 was due mainly to the lack of raw material supplies to the forest industry. Italian exports were affected by the strikes in the first quarter but picked up later in the year.

Even before the oil price increases towards the end of the year, foreign trade prices were rising sharply in 1973, under the impact of the pressure on domestic costs and prices and the upsurge in commodity prices. For a number of countries, currency devaluations also added to the pressure on import prices. As a result of the differing impact of these influences, changes in individual countries' terms of trade differed significantly.

Terms of trade losses for Italy and the United Kingdom have been considerable: some 12 per cent and 15 per cent, respectively, between the third quarters of 1972 and 1973. This was due largely to the depreciation of their currencies, but because of their relatively large net imports of primary commodities, both countries are likely to have

Terms of trade (1970 = 100)

	1972		*1973*		
Country	*III*	*IV*	*I*	*II*	*III*
Austria	95	97	94	95	96
Denmark	101	102	106	106	103
Finland	95	96	101	98	. .
France	103	103	107	106	104
Germany, Fed. Rep. of	107	105	102	102	105
Italy	98	96	95	91	86
Netherlands	99	99	99	98	96
Norway	97	97	98	101	102
Sweden	102	101	99	98	101
Switzerland	108	108	107	105	105
United Kingdom	103	99	97	93	88

Source: derived from indices of average import and export values in OECD, *Main Economic Indicators*, February 1974.

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[38] Table 1.13 is based on OECD statistics, which differ slightly in coverage from the United Nations statistics on which the above statements concerning volume and unit value changes are based. It should also be noted that the 1973 figures in table 1.13 are partly estimated.

[39] The following paragraphs outline the principal developments in industrial west European countries' trade in 1973: for a description of developments in the trade of the south European countries, see section 4 (ii) of this chapter.

Table 1.13

Western Europe's [a] trade by area of origin and destination

(Millions of current US dollars and percentage change from corresponding period of previous year)

Area of origin for imports and destination for exports	Imports c.i.f.			Exports f.o.b.			Balances (Exports f.o.b. minus imports c.i.f.)	
	Value in January-September 1973 b	Percentage change		Value in January-September 1973 b	Percentage change			
		Year 1972	January-September 1973 b		Year 1972	January-September 1973 b	January-September 1972	January-September 1973
Western Europe	126 411	21	38	125 816	22	37	−381	−595
Rest of the world	68 979	12	38	56 368	15	34	−7 997	−12 611
United States and Canada	19 126	5	36	16 133	18	26	−1 219	−2 993
Eastern Europe and the Soviet Union	7 647	16	36	8 057	26	42	70	410
Japan	4 552	31	51	2 533	23	69	−1 519	−2 019
Australia, New Zealand and South Africa	4 432	23	38	3 965	−6	34	−236	−467
China	575	24	46	682	15	76	−6	107
Developing countries	32 479	12	37	24 259	14	34	−5 503	−8 220
of which:								
Oil exporting countries [c]	14 300	10	30	6 280	23	39	−6 103	−7 480
World (including unspecified)	195 390	18	38	182 184	20	36	−8 378	−13 206

Sources: OECD, *Foreign Trade Statistics, Series A, Overall trade by countries*, Supplement December 1973, January 1974; International Monetary Fund, *Direction of Trade*, December 1973; and national trade statistics.

[a] Excluding Ireland for the period January-September 1972 and 1973.

[b] Partly estimated.

[c] Algeria, Bahrain, Indonesia, Iran, Iraq, Kuwait, Libya, Oman, Netherlands Antilles, Nigeria, Qatar, Saudi Arabia, Trinidad and Tobago, and Venezuela.

been hit especially hard by the commodity price boom.[40] By contrast, the terms of trade of Denmark and Norway improved between the third quarters of 1972 and of 1973 (although quarterly changes have been erratic). Denmark benefited from exports of meat, and Norway from exports of pulp (Denmark and Norway may also have derived some benefit from appreciations of their currencies). Sweden's terms of trade might also have been expected to improve, but showed little change. The largest terms of trade gain may have been achieved by Ireland as its trade in primary commodities is dominated by exports of meat, the price of which rose sharply. Comparable figures to those shown above are not available for Ireland, but in the first half of 1973 its terms of trade were some 10 per cent more favourable than in the first half of 1972.

PAYMENTS

Current account

The further acceleration of the growth of output in western Europe in 1973 led to a substantial decline of the region's current account surplus, from an estimated $6.8 billion in 1972 to $2.6 billion in 1973 (table 1.15). This change was more than accounted for by an increase in western Europe's commodity import surplus, which was partly offset by invisibles, as the region's net earnings on transport, travel and net receipts of income from investment appear to have increased. The fast rate of growth of the volume of trade and the exceptionally high freight rates in 1973 led to an increase of western Europe's earnings from shipping, particularly in Norway and Greece.

Transactions with the United States accounted for a large proportion of the decline in western Europe's current surplus in 1973. According to United States data the country's current balance with western Europe declined from a deficit of $4.4 billion in the first nine months of 1972 to one of $3.3 billion in the corresponding months of 1973. This reflects two divergent movements. A swing in the trade balance of the United States with western Europe from deficit into surplus which was partly offset by an increase of the deficit on invisibles. The latter was mainly accounted for by higher net payments of income on investments—as income on foreign investment in the United States grew fast in the wake of an exceptionally high rate of growth of output in the United States—and also but to a lesser extent by larger net expenditure on travel in western Europe (table 1.16).

Partly because of transactions with western Europe, there was a significant improvement of the current account of the United States in 1973. The current account swung from a deficit of $8.4 billion in 1972 to a surplus of $3.0 billion in 1973. All other main regions shared in this improvement. By far the largest changes were, however, those in current transactions with developing countries and Japan.

Within western Europe, the largest changes were the deterioration of the current accounts of the United Kingdom and Italy and the improvement of those of the Federal Republic of Germany and, to a lesser extent, Sweden. In the United Kingdom where an exceptionally high rate of growth of output was recorded the swing of the current balance from a small surplus to a substantial deficit of $3.6 billion was more than accounted for by commodity trade. The increase in the trade deficit was largely due to a deterioration of the country's terms of trade, mainly because of the parity realignment and the rise of primary commodity prices. The large deterioration of Italy's current account followed a similar pattern, an exceptionally large deterioration in the trade balance being only partly offset by a relatively small improvement of invisibles.[41] The swing of Italy's current account from surplus to deficit was associated with an acceleration in the growth of domestic demand and output. The increase in the current surplus of the Federal Republic of Germany, from $1.1 billion in 1972 to $4.7 billion in 1973, was the outcome of a considerable rise in the trade surplus that was only partly offset by an increase of the deficit on invisibles, mainly travel. It was associated with an export led growth of output and a relatively slow rate of growth of domestic demand, that allowed for a shift into exports. In Sweden, the increase of the current surplus by $0.8 billion was more than accounted for by an improvement of the trade balance, that was only partly offset by a small increase of the country's deficit on invisibles.

Capital movements

The United States, the world's traditional major net exporter of private long-term capital, recorded a small outflow of private long-term capital of $0.4 billion in 1973, following a negligible net outflow of $0.2 billion in 1972. This minor rise concealed significant changes in the flow of foreign direct investment; a steep increase was recorded both in US direct investment abroad and foreign direct investment in the United States. It reflected mainly transactions with western Europe (table 1.16).

The United Kingdom, also a traditional net exporter of long-term private capital throughout the post-war years, was a net importer on this account in 1973; this amounted to $0.3 billion compared with a net outflow of $1.8 billion in 1972. This swing reflected both an

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[40] An examination of the impact on west European countries' terms of trade of the rise in commodity prices is contained in the *Economic Bulletin for Europe*, vol. 25. On the basis of trade in nine major commodities and price changes for these commodities, it was suggested that Italy was likely to have been most adversely affected, followed by the United Kingdom and the Federal Republic of Germany. At the other extreme, the terms of trade of the Scandinavian countries and Ireland should have benefited from the development of commodity prices. The remaining west European countries were in an intermediate position, with probably some terms of trade loss for Austria and Switzerland and little change for Belgium, France and the Netherlands.

[41] Official data for the whole year are not yet available; the official trade data published may conceal capital movements and are subject to adjustments.

TABLE 1.14

Total trade (seasonally adjusted) of individual west European countries, North America and Japan

(Value in millions of current US dollars and percentage change from corresponding period of previous year)

Country or area	Imports c.i.f.			Exports f.o.b.			Balances (Exports f.o.b. minus imports c.i.f.)	
	Value		Percentage change	Value		Percentage change		
	January-September 1972	January-September 1973	January-September 1973	January-September 1972	January-September 1973	January-September 1973	January-September 1972	January-September 1973
Austria	3 627	4 908	35	2 724	3 582	32	—903	—1 326
Belgium-Luxembourg	10 926	15 840	45	11 322	16 299	44	396	459
Denmark	3 624	5 346	48	3 198	4 461	39	—426	—885
Finland	2 382	3 189	34	2 190	2 730	25	—192	—459
France	19 416	27 285	41	18 693	26 223	40	—723	—1 062
Germany, Federal Republic of	29 271	39 564	35	33 771	49 029	45	4 500	9 465
Iceland	165	234	42	144	216	50	—21	—18
Ireland	1 515	2 019	33	1 167	1 524	31	—348	—495
Italy	13 965	19 890	42	13 407	15 657	17	—558	—4 233
Netherlands	12 561	17 820	42	12 117	17 568	45	—444	—252
Norway	3 216	4 545	41	2 394	3 285	37	—822	—1 260
Sweden	5 889	7 542	28	6 315	8 772	39	426	1 230
Switzerland	6 246	8 478	36	5 040	7 011	39	—1 206	—1 467
United Kingdom	20 457	27 789	36	17 751	22 509	27	—2 706	—5 280
Greece	1 695	2 532	49	654	990	51	—1 041	—1 542
Portugal	1 587	1 896	19	855	1 248	46	—732	—648
Spain	4 887	7 008	43	2 757	3 939	43	—2 130	—3 069
Turkey	1 050	1 389	32	678	1 098	62	—372	—291
Yugoslavia	2 292	3 186	39	1 671	2 055	22	—621	—1 131
Total western Europe	144 771	200 460	38	136 848	188 196	38	—7 923	—12 264
Canada [a]	13 764	16 857	23	14 436	17 865	24	672	1 008
United States [a]	40 713	50 376	24	36 249	51 033	41	—4 464	657
Japan	16 812	26 748	59	20 589	26 352	28	3 777	—396

Sources: OECD, *Main Economic Indicators*, January 1974; and national trade statistics.

[a] Imports f.o.b.

TABLE 1.15

Current account and changes (over preceding year) in official monetary reserves of selected west European countries, the United States and Canada

(Million current US dollars)

Country	1972			1973		
	Current account	*Change in reserves*	*Position at end of year*	*Current account*	*Change in reserves*	*Position at end of year*
Austria	−168	376	2 719	−350	154	2 873
Belgium-Luxembourg	1 163	399	3 878	1 102	1 231	5 109
Denmark	−67	133	855	−487	469	1 324
Finland	−117	43	758	−415	−114	644
France	289	1 762	10 015	100*	−1 486	8 529
Germany, Federal Republic of	1 050	5 128	23 785	4 650	9 362	33 147
Ireland	−128	131	1 126	−150	−101	1 025
Italy	2 038	−708	6 079	−1 500*[a]	355	6 434
Netherlands	1 148	989	4 785	1 751	1 762	6 547
Norway	−62	171	1 325	−342	250	1 575
Sweden	269	465	1 575	1 133	953	2 528
Switzerland	220	522	7 488	305	590	8 078
United Kingdom	173	−935	5 647	−3 600	829	6 476
Industrial Europe	5 808	8 476	70 035	2 197	14 254	84 289
Cyprus	−25	35	320	−30*	−13	307
Greece	−368	507	1 032	−1 175	−15	1 047
Portugal	484	367	2 312	550*	521	2 833
Spain	653	1 746	5 014	570	1 758	6 772
Turkey	−30	640	1 401	72	719	2 120
Yugoslavia	294	518	730	400*	754	1 484
Southern Europe	1 008	3 813	10 809	387	3 754	14 563
Western Europe [b]	6 816	12 289	80 844	2 584	18 008	98 852
United States	−8 353	−40	13 150	3 041	1 228	14 378
Canada	−629	349	6 050	−335	−282	5 768

Sources: IMF, *International Financial Statistics*, Washington; and national statistics.

[a] According to official Italian sources, the current deficit for 1973 amounts to 2.5 billion dollars. The figure in this table includes a secretariat estimate of concealed capital flight in 1973.

[b] Excluding Iceland and Malta.

increase of foreign investment in the United Kingdom and a decline of United Kingdom investment abroad. France recorded a net export of long-term private capital in the first nine months of 1973.

Another significant change in the flow of private long-term capital in western Europe was the reduction in the net inflow of private long-term capital into the Federal Republic of Germany from $5.1 billion in 1972 to 3.9 billion in 1973. It was mainly accounted for by the swing from a net inflow of foreign portfolio capital in 1972—mainly for the purchase of bonds—to a net outflow in 1973, partly because of the measures taken in June 1972 and February 1973 to curb the net inflow of capital into the Federal Republic of Germany. (In June 1972 a mandatory authorization for the sale of domestic bonds to non-residents was introduced, and in February 1973 this was extended to domestic assets other than bonds.) There was moreover a change in interest rate differentials in favour of the United Kingdom in the third quarter of 1972.

The largest changes in the pattern of short-term capital flows in 1973, was the substantial increase in the outflow from the United States, mainly in February. It was provoked both by the anticipation of a change in the parity of the dollar, following the considerable deterioration of the United States current account in 1972, and by the prevailing interest rate differentials in favour of west European financial markets. This led to a substantial inflow into western Europe, mainly the Federal Republic of Germany. Data for the first three quarters of 1973 for the United States (not seasonally adjusted) point to an increase of the net outflow of short-term capital (including net errors and omissions) by $6.6 billion over the corresponding period of 1972.

Policy measures

On 12 February 1973, the United States Government asked Congress to devalue the dollar by 10 per cent in terms of gold.[42] This was followed by a number of

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[42] The change in the par value of the United States dollar became formally effective on 18 October, 1973.

TABLE 1.16

The balance of payments of the United States, total and by European regions, 1971, 1972 and 1973

(Million current US dollars)

	World total			*Western Europe*			*Eastern Europe*		
	1971	*1972*	*1973*	*1971*	*1972*	*1973*	*1971*	*1972*	*1973*
I. Current balance	−2 791	−8 353	3 041	−2 202	−5 013	. .	170	470	. .
of which;									
Trade balance	−2 698	−6 912	688	778	−659	. .	184	494	. .
Military transactions	−2 917	−3 558	−2 171	−1 093	−1 791	−1 818	−4	−4	−4
II. Net outflow of long-term capital	−8 581	−7 065	−9 629	−2 215	−689	−3 416	−3	−97	−618
(*a*) US private	−6 689	−5 489	−7 023	−2 338	−644	−3 270	−9	−29	−252
(*b*) US government	−1 892	−1 576	−2 606	123	−45	−146	6	−68	−366
III. = I + II. Balance (= Transfer gap)	−11 372	−15 418	−6 588	−4 417	−5 702	. .	167	373	. .
Financing of transfer gap:									
(*a*) Foreign long term [a]	1 821	5 576	7 802	2 155	3 842	4 360	0	0	0
(*b*) US liabilities to foreigners [b]	20 714 [c]	15 084 [c]	9 513 [c]	10 470	5 854	14 430	− 3	24	40
(*c*) Short term	−3 444	−2 871	−6 143	−1 260	−1 011	−1 337	−20	−41	−26
(*d*) Official reserves	2 348	32	209	1 177	38	233	—	—	—
of which: Gold	866	547	—	796	3	—	—	—	—
(*e*) Net errors and omissions [d]	−10 067	−2 403	−4 793	−8 125	−3 021	. .	−144	−356	. .

Source: US Department of Commerce, *Survey of Current Business*, Washington, June 1973 and December 1973.

[a] For "World Total", "Other foreign private capital, long-term, reported by US banks" is included under III.a; for the various regions, it is included under IIIb.

[b] Including "Other readily marketable liabilities to foreign official agencies" and "Non-liquid liabilities to foreign official reserve agencies" reported by US Government.

[c] *Of which:*

	Year		
	1971	*1972*	*1973*
(i) Private	−6 691	4 776	4 436
(ii) Government	27 405	10 308	5 077

[d] Including allocations of SDRs and statistical discrepancy.

changes in the international exchange rate structure: (1) In western Europe, Austria, Belgium-Luxembourg, Denmark, France, the Federal Republic of Germany, the Netherlands, Norway, and Spain maintained their gold parities, implying a revaluation of 11.1 per cent in terms of dollars.[43] (2) Greece, Iceland, Turkey and Yugoslavia followed the dollar and devalued their currencies by 10 per cent in terms of gold.[44] (3) Finland, Portugal and Sweden devalued by less than 10 per cent.[45] (4) Canada, Switzerland,[46] the United Kingdom and Ireland decided to continue to float, while Italy[47] and Japan allowed their currencies to fluctuate freely on the exchange market.

On 12 March, 1973, the member countries of the enlarged European Economic Community—except for the United Kingdom, Ireland and Italy the currencies of which floated independently—decided to allow their currencies to float against the dollar but to maintain a maximum margin of 2.25 per cent between themselves. At the same time the Federal Republic of Germany revalued the DM by 3 per cent; this was followed by a revaluation of the Austrian schilling by 2.25 per cent on 19 March 1973. Four additional revaluations were announced in the remaining part of 1973: the Deutschmark by 5.5 per cent on 29 June, the Austrian schilling by 4.8 per cent on 3 July, the Norwegian krone by 5 per cent on 17 September, the Greek drachma by 11.1 per cent on 19 October, and the Dutch guilder by 5 per cent on 16 November.

Following these measures all currencies of western Europe and Japan—except for the Italian lira, the United Kingdom and Irish pound—appreciated in terms of the United States dollar in the course of 1973. By far the largest were appreciations of the Deutschmark and the Norwegian krone (18.5 per cent), the Austrian schilling (16.9 per cent), Iceland's krona (16.5 per cent), the Swiss franc (16.3 per cent), and the Dutch guilder (14.2 per cent) (see table 1.17).

TABLE 1.17

Percentage changes of exchange rates in terms of United States dollars of currencies in western Europe, Canada and Japan in the course of 1971, 1972 and 1973

Country	*1971*	*1972*	*1973*
Austria (schilling) . . .	9.2	2.2	16.9
Belgium (franc)	11.0	1.6	6.6
Cyprus (pound)	8.8	—	6.1
Denmark (krone) . . .	6.0	3.1	8.8
Finland (markka)	0.7	−0.7	8.6
France (franc)	5.7	1.9	8.9
Germany, Federal Republic of (Deutschmark) . . .	11.6	2.1	18.5
Greece (drachma) . . .	—	—	11.1
Iceland (krona)	0.8	−10.7	16.5
Ireland (pound)	6.6	−8.1	−1.0
Italy (lira)	4.9	2.0	−4.2
Malta (pound)	11.3	−5.6	2.8
Netherlands (guilder) .	10.5	0.9	14.2
Norway (krone).	6.4	0.9	15.9
Portugal (escudo)	4.3	2.1	4.0
Spain (peseta)	5.6	3.9	11.6
Sweden (krona)	6.3	2.5	3.4
Switzerland (franc) . . .	10.2	3.7	16.3
Turkey (lira)	7.1	—	—
United Kingdom (pound)	6.6	− 8.0	−1.1
Yugoslavia (dinar) . . .	−26.5	—	−9.0
Canada (dollar)	0.8	0.7	—
Japan (yen)	13.6	4.2	7.9

Source: IMF, *International Financial Statistics*, Washington.

Official monetary reserves

As a result of the higher net inflow of capital, mainly from the United States, western Europe's official monetary reserves increased by $18.0 billion in 1973 (compared with $12.3 billion in 1972), despite the decline of the region's current surplus. All countries shared in this increase, except France, Finland, Ireland and Cyprus. By far the largest rise in reserves was that of the Federal Republic of Germany ($9.4 billion compared with $5.1 billion in 1972), the net outcome of a large increase of the current surplus and a substantial net inflow of capital. In the Netherlands, Spain and Belgium-Luxembourg—where the increase of official reserves exceeded $1 billion—the change was almost entirely due to capital movements. In France the decline of $1.5 billion in the official monetary reserves (from $10.0 billion in 1972 to $8.5 billion in 1973) reflected almost entirely a net outflow of capital as the decline in the country's current surplus was relatively small. The official reserves of both Italy and the United Kingdom increased despite the substantial deterioration of their current accounts (table 1.15). Mainly because of the increase of official monetary reserves of western Europe, which was only partly offset by a decline of $6.1 billion in Japan and a considerably smaller one in Canada, international liquidity increased by $23.8 billion in 1973 compared with $28.1 billion in 1972. This includes an increase of $10.8 billion in the reserves of developing countries compared with $8.7 billion in 1972. The oil producing countries accounted for almost $2.4 billion of the rise compared with $2.1 billion in 1972[48] (table 1.18).

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[43] France and Spain held their par values, while Austria, Belgium-Luxembourg, Denmark, the Federal Republic of Germany, the Netherlands and Norway kept their central rates unchanged in terms of gold and SDRs.

[44] Turkey set a new central rate, Greece and Iceland changed at the same time their par values to central rates, while Yugoslavia set a new par value.

[45] Finland by 5.4 per cent, Portugal by 3.8 per cent and Sweden by 5.0 per cent.

[46] Switzerland had allowed the franc to float on 23 January, 1973.

[47] In Italy a two-tier foreign exchange system became effective on 22 January 1973: on the "financial" market the lira was allowed to fluctuate freely, but for "commercial" transactions fluctuations in the exchange rate were maintained within permitted margins.

[48] Iran, Iraq, Kuwait, Libyan Arab Republic, Saudi Arabia and Venezuela.

TABLE 1.18

Changes in official monetary reserves by main regions

(Million current US dollars)

Country or region	Position at end of 1971	Change in reserves	
		1972 over 1971	1973 over 1972
United Kingdom — Total	6 582	−935	829
Gold	842	−42	86
Foreign exchange	5 098	−1 034	661
Fund reserve position	—	127	14
SDRs	642	14	68
Other western Europe — Total	62 244	13 312	17 250
Gold	21 334	38	2 379
Foreign exchange	34 223	12 059	14 242
Fund reserve position	4 048	−60	122
SDRs	2 639	1 275	507
United States — Total	13 190	−39	1 227
Gold	11 081	−594	1 165
Foreign exchange	280	−39	−233
Fund reserve position	635	−170	87
SDRs	1 194	764	208
Canada and Japan — Total	21 061	3 354	−6 400
Gold	1 600	35	183
Foreign exchange	17 857	2 994	−6 708
Fund reserve position	893	70	14
SDRs	711	255	111

Country or region	Position at end of 1971	Change in reserves	
		1972 over 1971	1973 over 1971
Oceania and South Africa — Total	4 342	3 667	77
Gold	728	235	151
Foreign exchange	3 081	3 281	−104
Fund reserve position	324	—	35
SDRs	209	151	−5
Developed countries — Total	107 419	19 359	12 983
Gold	35 585	−328	3 964
Foreign exchange	60 539	17 261	7 858
Fund reserve position	5 900	−33	272
SDRs	5 395	2 459	889
Developing countries — Total	23 062	8 724	10 816
Gold	3 484	−5	353
Foreign exchange	17 597	8 188	9 810
Fund reserve position	991	−46	353
SDRs	990	587	300

Source: IMF, *International Financial Statistics*, Washington.

The largest part of the increase of international liquidity in 1973 consisted of a further accumulation of United States liabilities in the official reserves of foreign central banks, in line with the general post-war pattern (table 1.18). The increase of United States liabilities to foreign official agencies financed the substantial part of the deficit on the official reserve transactions balance, which amounted to $5.3 billion in 1973 compared with $10.3 billion in 1972. The increase in the official monetary reserves of the United States by $1.2 billion in 1973 was due to the change in the official price of gold.

2. OIL

(i) Oil production and consumer shortfalls

As 1973 progressed, oil scarcity increased partly as a result of increased world import demand.[49] Furthermore, a tightening of world supplies occurred due to the destruction of a number of oil pipelines in the Middle East during the October conflict. These demand and supply developments provide the background for the 17 October 1973 decision of the majority of the members of the Organization of Arab Petroleum Exporting Countries (OAPEC) to reduce their production of crude oil in each successive month by an additional 5 per cent relative to September 1973 output levels.[50] Thus the plans of the OAPEC involved a monthly reduction of about 1 million barrels of oil per day out of total production of twenty million barrels per day (mb/d). Furthermore, a number of countries were to stop receiving crude petroleum altogether from the OAPEC member states.[51] The quantities of oil formerly supplied to these was to be deducted from the over-all supply reduction existing at that time. Obviously, the oil-importing countries not embargoed would be relatively better off since the percentage reduction which they would experience would be less than the over-all percentage reduction in oil production.[52]

However, at a meeting in Kuwait on 4-5 November 1973, these plans were modified to substitute a 25 per cent reduction in November (relative to September output) and follow it with the originally planned 5 per cent reductions in successive months. For various reasons the 5 per cent December reduction was cancelled and at a late December meeting in Kuwait, the OAPEC members not only cancelled the anticipated 5 per cent January reduction, but announced that oil production would be increased from 75 per cent of the September 1973 le[illegible] per cent of that level.

Table 2.1 is an attempt to summarize and quantify the actual changes in the crude oil production of the OAPEC countries.[53] As mentioned above, the reductions in oil production were made relative to the September 1973 output levels and are presented here in that form. However, it is equally informative for importing countries to know the shortfall in oil supplies, i.e. the difference between actual supply and projected demand. Projected demand would include not only the pre-oil reduction long-term growth trend of demand, but also the seasonal component. Normally, oil production is increased in the last quarter of the year to supply the northern hemisphere with its winter needs. Since the supply reductions were set relative to September, importing countries would sustain a shortfall equal to the sum of the absolute reduction, the long-term growth component and the rise in seasonal imports.

Assessing the extent of the supply shortfalls for individual countries is difficult due mainly to two factors.[54] Since October, the OAPEC has classified some nations as "friendly",[55] which initially meant that they would continue to receive oil in the same quantities as their average level of imports during the first nine months of 1973. In late December, the OAPEC offered to "certain countries" all of the oil supplies they wanted, even if this meant giving them more than they received in September. Towards the end of January, a spokesman for the OAPEC announced that Europe as a whole was getting slightly more OAPEC oil than in September. However, the distribution between the countries had changed with the "friendly" nations getting more and the remainder getting less.

The other complicating factor in attempting to determine the flow of oil to individual countries has been the activities of the multi-national oil companies. These companies account for the major part of world crude oil distribution, and thus determine the final destination of most of the oil in world trade. The companies have promulgated a policy in which the over-all shortfall in

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[49] In 1973, United States imports of crude petroleum increased by 1 million barrels/day (46.2 per cent increase over 1972) while imports of petroleum products increased by 0.4 million barrels/day (a 15.8 per cent increase). *The Petroleum Economist*, February 1974, p. 70.

[50] The members of the OAPEC are: Saudi Arabia, Kuwait, Iraq, Abu Dhabi, Qatar, Bahrain, Libya, Algeria, Egypt and Syria. Iraq did not participate in the reduction.

[51] The countries include the Caribbean, Netherlands, Portugal, Rhodesia, South Africa, South Yemen, the United States and possibly Canada.

[52] In 1973 the United States imported a total of about 2 mb/d of OAPEC oil and products refined from OAPEC oil. Due to the embargo of the United States, the effects of the initial 25 per cent oil reduction were mitigated for western Europe (with the exception of the embargoed Netherlands) since 40 per cent of the reduction was accounted for by the United States.

[53] The figures used were taken from *The Petroleum Economist*, January 1974, pp. 5-6. They agree quite closely with the estimates of the Emergency Petrol Supply Committee, a United States Government advisory group. *International Herald Tribune*, 9-10 February 1974, p. 1.

[54] A number of countries have temporarily ceased publication of oil import quantities and domestic oil stocks.

[55] The "friendly" countries, as identified by Saudi Arabia, are: Britain, France, Spain, Turkey, Pakistan, India, Brazil, the Arab States of the Middle East and various African states. Belgium and Japan were later added.

TABLE 2.1

OAPEC oil production and shortfalls in millions of barrels/day

(Billion dinars)

	September 1973	*December 1973*	*First quarter 1974*
1. Actual OAPEC production	20.5	15.6	17.7
2. Reduction relative to September output	—	4.8	2.7
3. Percentage reduction relative to September output	—	24	13
4. Projected OAPEC production	20.5	21.9	. .
5. Shortfall relative to OAPEC projected production	—	6.3	. .
6. Projected world [a] production of oil	. .	53.0	57.7
7. Shortfall relative to projected world production	—	6.3	4.0 [b]
8. Shortfall as percentage of projected world production	—	11	7
9. Shortfall in oil as a percentage of total world energy demand	—	. .	4

Source: The Petroleum Economist, January 1974, pp. 5-6.

a Excludes eastern Europe and China.

b Assumes increased production by non-OAPEC oil producing nations.

world supplies should be distributed equally among all consuming nations. As a result, the Netherlands and the United States have received increased shipments from the non-OAPEC oil-producing countries while nations on the "friendly" list have generally seen their imports from the same sources diminish.[56]

It is probable that recent estimates of oil shortfalls have been based upon incomplete information. Therefore, it is with reservations that these estimates of shortfalls which have been made available by various sources are presented here. The European Economic Commission has estimated that oil supplies to the Common Market countries are about 9 per cent below projected demand levels for the first quarter of 1974.[57] In December, Denmark experienced a deficit of oil supplies of about 15 per cent, the Netherlands one of about 25 per cent and the United Kingdom had a deficit of 10-15 per cent. However, the Netherlands oil imports did increase in the first week in January by 12.5 per cent over the same period in the previous month.[58] Sweden seemed to be experiencing a larger oil import reduction than most west European countries with a shortfall of about 20 per cent in the first quarter of 1974. The United States had projected a first quarter supply of 19.7 mb/d of which 7.8 mb/d were to come from imports. Imports have actually been between 5.4 and 5.6 mb/d, indicating a shortfall of about 11 per cent.

To reduce the sizes of the shortfalls, and thus to limit the use of stocks, countries instituted programmes with the objective of conserving 10-15 per cent of energy use by reducing the demand for oil products. The emphasis has been on reducing the use of oil, directly, or indirectly, for non-industrial purposes. If the sum of the percentages of primary and secondary energy requirements used for domestic and transport purposes (table 2.11) is used as a crude proxy for energy savings potential, it is evident that countries have varying abilities to restrict energy use without seriously affecting industrial production. It should be added that the combination of voluntary and statutory restrictions on energy use have been quite effective in curtailing demand.

In the absence of quantitative oil import data, it is possible to obtain a rough indication of the oil supply situation in a country by observing the government manipulation of restrictions on energy use. For example, Denmark, which depends on oil for 85 per cent of its total energy requirements, lifted the ban on Sunday driving on 12 February. Simultaneously, industry was allowed its full requirements of oil after having had experienced a reduction of 25 per cent since December. Similarly, the Netherlands ended motor fuel rationing in February as did Sweden. One must conclude that the oil supply shortage is not having a serious effect on western economies.

Oil stocks have been drawn down to varying extents. The European Economic Community has estimated that its stocks will fall 8 million tons by March from the beginning of the year. The March level will equal 72 days' consumption. In the Federal Republic of Germany, undistributed stocks of crude and products decreased from 25.8 million tons at the end of September to 23.8 million tons at the end of December. Nevertheless, the latter quantity was 1 million tons above the same time last year. The United Kingdom has seen its stocks drop more rapidly from 23.1 million tons on 29 September (or 76 days' supply) to 18.8 million tons (or 55 days' supply) on 19 January.

(ii) Crude oil prices

On 16 October 1973, the posted prices of crude oil were raised by the OAPEC members from $3.01 per barrel (for Arabian light oil) to $5.11 and then to $11.65 on 23 December 1973.[59]

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[56] It should be noted that the companies have ceased all shipments of oil of OAPEC origin to the embargoed nations.

[57] *Financial Times,* 2 February 1974, p. 12.

[58] *The Petroleum Economist,* February 1974, p. 72.

The raw material cost structure of the international oil companies is determined under the participation agreement signed with a number of Persian Gulf producer governments in 1973. Under these agreements, the oil companies have contractual rights to 75 per cent of oil production (called cost crude) with the remaining 25 per cent going to the producer government (participation crude). However, the oil companies have legal options which allow them to "buy back" 20 per cent (i.e. 80 per cent of the government share) for distribution. The remaining government 5 per cent is sold directly by the governments at their discretion.[60]

The familiar posted price is used only for the calculation of the taxes and royalties which the companies must pay for the percentage of oil exported as cost crude.

At the current posted price of $11.65 per barrel, the companies pay a 12½ per cent royalty which amounts to $1.49 per barrel. Adding a $0.13 per barrel operating cost to the royalty and subtracting that sum from the posted price leaves a hypothetical profit of $10 per barrel, which is subject to a tax at the rate of 55 per cent. The tax of $5.50 plus the royalty equals the government take of $7 per barrel.[61]

Of its 20 per cent which the Saudi Arabian Government sells to the oil companies, 12.5 per cent (bridging crude) is sold for $8.44 per barrel and the remaining 7.5 per cent (phase-in crude) is sold for $7.48 per barrel.[62] Finally, the 5 per cent of production which Saudi Arabia has for direct sale has been sold at 93 per cent of the posted price or $10.84 per barrel.[63] The weighted average government take per barrel for Saudi Arabia under this system is about $7.49. It thus follows that the cost of oil to a particular oil company will depend on the type of oil (i.e. cost, participation, or direct sale crude) which it has access to.

In the pre-October 1973 market, posted prices were, in general, inversely proportional to the distance between the producing country and major oil consuming nations.[64] As a result, oil arriving at a destination from two geographically separated sources would arrive at roughly the same c.i.f. price because of the equalizing effects of ocean freight costs. One of the major changes in the markets since October 1973 has been the breakdown of these price-spatial relationships, as is suggested by the table in footnote 61.

These developments will affect the c.i.f. oil price of importing nations in two ways. The c.i.f. price has now become a function of the particular country that a consumer nation imports from, and also the percentage of the oil which comes from cost, participation or direct sale sources of supply. Recently, the countries depending on the open market direct producer government sales have had to pay the highest prices.

It is necessary to calculate a representative c.i.f. price for crude oil for western Europe to be used for estimating the effect of the recent crude oil price increase on the level of prices in a number of countries. For a first order calculation as this one must be, the price effects of the market imperfections mentioned above will not be considered. As a basis for this representative estimate, the posted price of $11.65 per barrel of Arabian light crude, ex Ras Tanura, with an API degrees of 34.00-34.09° will be used. Only the price of oil delivered by the international oil companies will be considered since it accounts for almost all of the crude oil entering world trade.

Table 2.2 presents the calculation of c.i.f. prices consistent with recent posted prices. In each case, taxes, royalties and government take are calculated. Operating costs per barrel incurred by the oil companies have been quoted in the range of $0.10-$0.30.[65] Profits allowed by the Arab governments have been estimated at $0.25 [66]-$0.60 [67] per barrel in the pre-crisis period. By February, they were reported to have grown to $1.17 per barrel.[68] It was assumed that this high profit level would fall once the present turbulence of the market subsided and thus the pre-crisis figure was used. Similarly, the fate of freight costs is unpredictable and was also kept at its pre-crisis

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[59] Posted prices for the same type of oil were $2.59 per barrel in January 1973, $2.74 in April, $2.96 in July and $3.06 in August of the same year.

[60] This 75-25 per cent company-government oil sharing agreement (by which the government share is to rise 51 per cent by 1982) is currently in effect in Saudi Arabia, Abu Dhabi, Qatar and Oman. An agreement providing for a government share of 60 per cent may be ratified by Kuwait. On the other hand, the oil industries of Iran and Iraq are completely government owned.

[61] There is currently a wide variation in posted prices, which also causes government take to vary. For January 1974 (US dollars per barrel):

Country	*Posted price*	*Government take*
Abu Dhabi.	12.63	7.56
Algeria	16.22	9.88
Libya	15.79	9.59
Nigeria	14.69	8.70
Saudi Arabia.	11.65	7.00
Venezuela	14.25	8.70

Source: The Petroleum Economist, February 1974, p. 43.

[62] Based on their higher posted prices, other producers will charge more than Saudi Arabia for this participation crude.

[63] A producer country may take this 5 per cent share and sell it to a buyer at a pre-arranged price, as does Saudi Arabia. Or, it can auction the oil off, in which case it provides the supply for what is known as the open market. Only about 5 per cent of the oil entering world trade is bought in this market, but the percentage will increase as producer government participation increases under existing agreements. On 16 October 1973, the OAPEC members linked the posted price to the market price, specifying that the posted price should always remain at least 40 per cent above the market price. However, the formula was rescinded when it proved unworkable due to large divergences in market prices.

[64] Other factors influencing posted prices are the physical characteristics of the oil. The price of oil increases inversely with the oils' specific gravity. Recently, premiums have been added for low sulphur content. Some countries such as Venezuela add a "freight premium" to the posted price whenever tanker rates for the preceding three months exceed world scale 72. For October to December 1973, this premium was $0.69 per barrel. It is unknown what percentage of this cost is passed on into the c.i.f. price, *The Petroleum Economist*, February 1974, p. 78.

[65] *The Petroleum Economist*, February 1974, p. 44.

[66] OECD, *Economic Outlook*, December 1973, p. 17.

[67] *Le Monde*, 4 January 1974, p. 4.

[68] *International Herald Tribune*, 26 February 1974, p. 2.

TABLE 2.2

Arabian light crude oil posted prices and resulting c.i.f. prices for western Europe in United States dollars per barrel

	1 October 1973	*16 October 1973*	*22 December 1973*	*Hypothesized 1974 price* [c]
Posted price	3.01	5.11	11.65	8.00
12½ per cent royalties	0.39	0.64	1.46	1.00
55 per cent tax	1.44	2.46	5.55	3.85
Government take = royalties plus tax	1.77	3.10	7.01	4.85
Operating costs [a]	0.13	0.13	0.13	0.13
Profits [a]	0.45	0.45	0.45	0.45
Freight and insurance [b]	1.30	1.30	1.30	1.30
c.i.f. price	3.65	5.00	8.90	6.70
Per cent *c.i.f.* price increase over 1 October	—	40%	140%	80%

[a] *Business Week*, 5 January 1974. Operating costs and profits for Aramco.

[b] OECD, *Economic Outlook*, No. 14, December 1973; OECD freight and insurance estimate.

[c] See text.

level of $1.30 per barrel.[69] Thus an estimate of the c.i.f. price is the sum of the government take, operating costs, profits and freight charges. The 16 October price increase represented a c.i.f. price change of about 40 per cent while the 22 December (effective 1 January 1974) amounted to about 140 per cent relative to 1 October 1973 prices.

The posted price of $8.00 per barrel represents a compromise assumption reflecting the possibility that posted prices will fall to between the 16 October and 22 December levels.[70] This is also the level which Saudi Arabia recommended at the OAPEC meeting in December 1973. The $8.00 per barrel posted price is used for subsequent calculations along with the $5.11 and $11.65 posted prices.

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[69] *The Petroleum Economist*, February 1974, p. 43, has quoted a freight charge from the Persian Gulf to north west Europe or the United States a world scale 125 around $2.00 per barrel.

[70] There are a number of reasons why the price may decrease. First, there have been indications that the OAPEC nations are reluctant to precipitate the international monetary crisis which might result from the simultaneous balance-of-payments deficits of the western countries. In fact, there had been reports that Saudi Arabia was against raising the crude oil price to its present height of $11.65, instead pushing for a maximum of $8-9. Recently, Saudi Arabia has expressed an official desire to reduce the present price. Secondly, the market price of crude has dropped from a peak of $22 per barrel in December to $10-11 by the end of January. Furthermore, at a mid-February auction in which Kuwait offered to sell 800 million barrels of oil, there was strong evidence that the first round offers were substantially below posted prices. *Financial Times*, 22 February 1974, p. 40; 25 February 1974, p. 1. A weakness in demand in the open market might force downward revisions in the present posted prices.

TABLE 2.3

Expected price increases in the major components of final demand resulting from three hypothesized crude oil price (c.i.f.) increases [a]

Country and percentage increase in crude oil price	*Private consumption*	*Public consumption*	*Investment*	*Domestic demand*	*Exports*	*Total*
Belgium						
40 per cent	0.5	0.6	0.2	0.4	0.7	0.5
80 per cent	1.1	1.3	0.4	1.0	1.5	1.1
140 per cent	2.0	2.4	0.8	1.8	2.6	2.0
Finland [b]						
40 per cent	0.3	0.2	0.2	0.3	0.2	0.3
80 per cent	0.7	0.5	0.5	0.7	0.5	0.6
140 per cent	1.3	0.8	0.8	1.2	0.8	1.1
France						
40 per cent	0.3	0.4	0.2	0.3	1.0	0.4
80 per cent	0.7	0.9	0.5	0.7	2.2	0.9
140 per cent	1.2	1.5	0.8	1.2	3.9	1.5

TABLE 2.3 (*continued*)

Expected price increases in the major components of final demand resulting from three hypothesized crude oil price (c.i.f.) increases[a]

Country and percentage increase in crude oil price	*Private consumption*	*Public consumption*	*Investment*	*Domestic demand*	*Exports*	*Total*
Germany, Federal Republic of						
40 per cent	[illegible]	[illegible]	0.3	0.5	0.5	0.5
80 per cent	[illegible]	1.6	0.7	1.1	1.1	1.1
140 per cent	2.0	1.8	1.2	1.9	2.0	1.9
Ireland						
40 per cent	[illegible]	0.2	0.3		0.8	—
80 per cent	1.2	[illegible]	0.6	—	1.8	—
140 per cent	2.2	0.8	1.1	—	3.2	—
Italy						
40 per cent	0.5	0.2	0.4	0.4	1.1	0.5
80 per cent	[illegible]	0.5	0.8	1.0	2.6	1.2
140 per cent	2.0	0.9	1.5	1.7	4.6	2.1
Netherlands						
40 per cent	0.8	1.0	0.7	0.8	1.6	1.0
80 per cent	1.9	2.3	1.7	1.9	3.5	2.4
140 per cent	3.3	4.0	3.0	3.3	6.2	4.2
Portugal						
40 per cent	0.3	1.5	0.3	0.3	0.7	0.4
80 per cent	0.6	3.4	0.7	0.7	1.5	0.8
140 per cent	1.1	5.9	1.1	1.3	2.6	1.5
Spain						
40 per cent	0.4	0.2	0.4	0.3	0.9	0.4
80 per cent	0.8	0.4	0.9	0.8	1.9	0.9
140 per cent	1.4	0.7	1.5	1.4	3.4	1.5
Sweden[b]						
40 per cent	0.3	—	—	—	0.6	—
80 per cent	0.6	—	—	—	1.4	—
140 per cent	1.0	—	—	—	2.5	—
United Kingdom[d]						
40 per cent	0.3	—	—	0.3	0.9	0.5
80 per cent	0.7	—	—	0.7	2.0	1.1
140 per cent	[illegible]	—	—	1.2	3.7	1.9
United States[c]						
40 per cent	0.2	—	—	0.2	0.2	0.2
80 per cent	0.3	—	—	0.3	0.5	0.3
140 per cent	0.6	—	—	0.6	0.9	0.6

NOTE. — These calculations have been compared with those done by the OECD for identical price increases. ECE and OECD calculations for Belgium, France and Italy were very close, although ECE estimates of export price increases tended to be higher; for the Netherlands, ECE figures were about 150 per cent greater for all components of final demand. For the Federal Republic of Germany, ECE figures were 60 per cent greater than those of the OECD, but they were almost identical to those published by *Deutsches Institut für Wirtschaftsforschung* (*Wohenbericht*, 3/74) 17 January 1974, p. 16.

[a] Includes effects of price increases of imported natural gas.

[b] Also includes effects of price increases of imported coal.

[c] Figures for Ireland are scaled from those presented by E. W. Henry and S. Scott, "Estimated price increases due to higher costs of petroleum and other imports, as calculated from a 38-sector 1968 input-output model", *Quarterly Economic Commentary*, March 1974, pp. 26-36.

[d] OECD figures scaled to consistency with hypothesized price changes, OECD, *Economic Outlook*, No. 14, December 1973.

TABLE 2.4

Expected price increases in a number of oil intensive industrial sectors in response to a 140 per cent rise in the price of crude oil [a] (c.i.f) — per cent

Sector	Country							
	Belgium	*Finland* [b]	*France*	*Germany, Fed. Rep. of*	*Italy*	*Netherlands*	*Portugal* [c]	*Spain*
1. Petroleum products	60.3	72.4	66.3	40.0	30.8	69.9	76.3	78.0
2. Transport	2.7	1.0	2.1	6.0	3.2	4.4	2.6	5.2
3. Paper manufacturing and paper products	1.0	1.1	1.6	1.1	3.7	3.6	3.1	1.7
4. Electricity, gas, steam; water and sanitary services	2.1	6.1	2.6	2.0	2.2	5.6	0.5	3.3
5. Manufacturing of non-metallic mineral products	1.8	4.0	2.4	×	2.9	10.8	4.0	6.6
6. Iron and steel	0.9	0.6	1.1	2.2	1.4	2.4	1.0	1.4
7. Manufacturing of cement	1.7	×	2.1	2.6	3.0	11.9	1.0	5.6
8. Basic industrial chemicals	2.1	0.7	2.0	×	7.2	×	10.0	6.7
9. Glass and glass products	1.9	×	3.5	×	5.5	4.9	5.8	5.4
10. Misc. chemical products	2.4	0.7	2.4	×	4.1	×	1.3	1.6
11. Fishing	2.9	0.4	4.4	×	1.6	8.6	4.6	5.5
12. Manufacturing of rubber and products	0.8	0.5	1.4	0.9	3.4	1.4	0.8	2.3

[a] Includes the effects of imported oil and also imported natural gas.

[b] Includes coal along with oil and natural gas.

[c] For Portugal, oil is classified with mining and quarrying of other non-metallic minerals.

× Indicates that product is classified under a different sector.

(iii) Effects of energy price increases on the major components of demand

Input-output analysis has been used to estimate the effects of the recent energy cost increases on the 1974 price levels of the demand components of a number of west European countries. The methodology assumes that the price increases of energy are passed on in each sector in direct proportion to the direct and indirect energy content of that sector.[71] It is assumed that the price increases of oil and coal have separately affected the general price level, and tables are presented showing their independent impact.

Expected price increases in 1974 for six major demand components were calculated assuming three c.i.f. prices for crude oil to be $5.00, $6.70 and $8.90 per barrel. The prices correspond to increases of 40, 80 and 140 per cent since October 1973, and hopefully cover the range between which crude oil prices should settle this year. The results are presented in table 2.3. If one assumes for the sake of exposition that the $11.65 per barrel posted price (i.e. the $8.90 c.i.f. price or 140 per cent c.i.f. price increase) will prevail, the Netherlands is expected to experience a price increase of 3.3 per cent in private consumption. On the other hand, Sweden and Portugal will experience increases in the range of 1.0-1.1 per cent. Export prices will generally rise more than those of the other demand components, implying, under the assumptions used, that exports are relatively oil intensive. The only exception seems to occur in the case of Finland.

It is also interesting to determine which sectors are expected to show the largest price increases as a result of the oil price increase. The standardized ECE input-output tables also provide an opportunity to compare the expected price increases in the same sector in various countries for which the comparable tables exist. This information is provided in table 2.4 assuming a price increase in crude oil of 140 per cent. The sectors which are presented tend to be relatively oil intensive in all the countries listed. As is expected, the largest price increases will occur in the petroleum products sector, which includes products such as gasoline, kerosine, fuel oil, bunkers etc. At a much lower oil intensity are the transport, paper products and manufacture, electricity generation, and non-metallic products sectors.

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[71] See the annex to this section for a more detailed description of assumptions and methodology.

The price of alternative forms of primary energy can also be expected to increase.[72] If short run substitutability exists between oil and alternative energy forms, then the oil price increase will induce greater substitute use at the expense of oil. Demand for the substitute will increase, thereby increasing its price. The price of oil has risen so much that it is now much cheaper to use alternative forms of energy.[73] Of the other sources of primary energy, electricity generated by hydro or nuclear power accounts for a very small fraction of primary energy in most European countries.[74] In the west European countries, natural gas is an important source of energy only in the Netherlands, Austria and Belgium. The effects of the possible price increases of imported natural gas on the price levels of the major components of demand have been accounted for in the previous oil price increase calculations (table 2.3). The manufacture of crude petroleum and natural gas are classified together in the same sector. Only in the case of the Netherlands, which domestically produces the large amounts of natural gas for internal consumption, would the table 2.3 figures understate the contribution of gas to the general price increases.

Solid fuel (coal and lignite) is still an important energy source. Expected price increases in 1974 for six major components of demand were calculated assuming that the price of coal had increased by 40 per cent, which is the same as the smallest increase assumed for oil. Effects of both the price increases in domestically produced and imported coal have been calculated (table 2.5). Rising coal prices are expected to influence the price level most in the Federal Republic of Germany and Belgium and the least in Portugal and Italy. In general, exports tend to be relatively coal intensive, the exceptions being those of Belgium and Ireland. The Federal Republic of Germany would experience the largest increase in export prices. Given an equal percentage price rise for both coal and oil, tables 2.3 and 2.5 show that a coal price increase would raise the domestic price level more in Belgium, France and the Federal Republic of Germany than the oil price increase would. In Spain, the two energy sources would have about the same effect.

Table 2.6 presents the price increases in a number of the relatively coal intensive sectors which would result from a 140 per cent increase in the price of coal. This 140 per cent figure is used only to facilitate the comparison to table 2.4 and is not used in later estimates. The largest price increases would be expected in the following industries: manufactured coal products; electricity, gas, steam, water and sanitary services; iron and steel; and paper products industries. It is interesting to note the inter-country variation that exists in coal inputs in the production of the same commodity. Similarly, large variations exist in inter-country oil inputs (table 2.4). It should be noticed, also, that roughly the same sectors appear in both table 2.4 and 2.6 indicating that the same production sectors tend to be both coal and oil intensive on an inter-country basis.

Although the calculation has to be to some extent arbitrary, it is possible to make estimates of the total energy costs increase on the private consumption and export price levels of the various countries. These results are presented in table 2.7. Total primary energy will be assumed to be the sum of domestic and imported coal,

TABLE 2.5

Expected price increases in the major components of final demand resulting from a 40 per cent increase in the price of domestic and imported solid fuels[a]

Country	*Private consumption*	*Public consumption*	*Investment*	*Domestic demand*	*Exports*	*Total*
Belgium	0.9	0.6	0.3	.7	0.7	0.7
France	0.5	0.4	0.3	0.4	0.5	0.4
Germany, Federal Republic of	0.8	0.7	0.7	0.8	2.2	1.0
Ireland	0.3	0.0	0.0	—	0.0	—
Italy	0.1	0.1	0.1	0.1	0.2	0.1
Netherlands	0.6	0.4	0.2	0.5	0.7	0.5
Portugal	0.1	0.1	0.2	0.1	0.1	0.1
Spain	0.3	0.2	0.5	0.3	0.4	0.3
Sweden[a]						

[a] For Finland, coal is included in the oil-natural gas sector (table 2.4).

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[72] In the United States, for example, the price of coal increased 8.1 per cent between September and December 1973—before the full impact of the oil price rises affected the economy, *Survey of Current Business*, United States Department of Commerce, January 1974.

[73] *Financial Times*, 21 February 1974, p. 13. In the United Kingdom the present cost of coal delivered to a power station is the equivalent of 3 pence a therm compared with 6 to 7 pence a therm for oil based on the oil producers' new January prices.

[74] The exceptions are Austria, Norway, Sweden and Switzerland.

TABLE 2.6

Expected price increases in a number of coal intensive industrial sectors in response to a 140 per cent [a] rise in the price of coal [b]

(Percentages)

Sector	*Belgium*	*France*	*Germany, Federal Republic of*	*Italy*	*Netherlands*	*Portugal*	*Spain*
1. Manufacturing coal products	61.2	80.4	53.0	78.0	60.8	28.0	33.6
2. Electricity, gas, steam; water and sanitary services	14.9	10.5	26.7	2.1	9.3	2.1	9.2
3. Iron and steel	7.6	5.9	15.0	3.3	5.0	0.2	5.8
4. Manufacturing of cement	4.2	5.9	5.9	1.1	0.5	20.5	11.9
5. Paper manufacturing and paper products	1.1	2.0	3.5	0.2	0.5	0.7	2.9
6. Glass manufacturing and glass products	0.9	0.9	×	0.3	0.6	0.2	1.6
7. Rubber manufacturing and rubber products	1.4	1.3	2.4	0.2	0.6	0.2	1.3
8. Shipbuilding, manufacturing of railroad equipment	1.1	1.4	4.2	0.6	0.5	0.2	1.5
9. Non-ferrous basic metal industries	0.9	1.6	2.7	0.7	0.5	0.5	1.1
10. Basic industrial chemicals	2.2	2.7	×	0.2	×	0.2	4.2
11. Non-metallic mining	5.4	4.2	×	2.2	1.0	1.2	4.9
12. Transport	0.6	1.3	2.9	0.5	0.2	0.7	1.7
13. Government and other services	1.0	0.8	1.9	×	0.5	×	—
14. Construction	1.0	0.9	1.9	0.5	×	1.6	1.8

[a] The figure of 140 per cent is taken to make this table comparable with table 2.4.
[b] Only domestically produced coal included.

× Indicates that the product is classified under a different sector.

imported oil and imported natural gas.[75] Imported oil and natural gas prices are assumed to have increased by 140 per cent. Coal, on the other hand, was assumed to have increased by 40 per cent.

In addition to the primary energy induced price effects, a number of secondary price effects will develop which could be quite important. An attempt is made here to quantify these effects.[76] Increases in world energy costs will subsequently increase each country's import prices, giving rise to both a direct and indirect increase in the general price level. The magnitude of this second-round effect will depend on a country's composition of imports and on the size of its foreign trade sector. The OECD had previously estimated that a typical European country would experience increases in general price levels of about 0.1 per cent (and 0.2 for the Netherlands) as a result of higher oil-induced import prices. A figure of 0.3 per cent is used here reflecting the use of an oil price increase roughly three times that used in the OECD calculations. Imports incorporating coal would also add to the general price level. Tables 2.3 and 2.5 indicate that a given rise in the price of coal would have roughly the same quantitative effect in most countries on the price level as an equal oil price increase. Therefore, the OECD figure of 0.1 per cent for the secondary import effects (for imports utilizing oil) is used as an approximation for the effects of the higher coal-induced import prices (OECD had based their figures on an oil price increase of 45 per cent compared to the 40 per cent rise in coal prices assumed here).

If companies set prices by using percentage mark-ups, the input-output methodology used here will underestimate the price effects of the oil-induced price rise. The OECD has estimated, on the basis of a 45 per cent oil price increase, that use of this mark-up procedure could add as much as 0.25 per cent to the over-all price level. Taking into account the higher oil price assumption, as well as the effect of higher coal prices, it is estimated that the mark-up could add about 0.5 to 1 per cent.

Finally, wages are expected to respond to the primary increases in the general price level. If not offset by productivity increases, the higher wages will be passed on (in varying degrees) in terms of higher prices. The OECD has estimated the magnitude of this secondary effect using the following equation:[77]

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[75] For a number of countries, imported refinery products serve as an important source of energy. Estimates of effects of the increase in price of this input were made for Sweden, which imports 65 per cent of its liquid fuel as refinery products. Using the Netherlands' import coefficient of direct and indirect effects of 0.50 (guilders of petroleum products output per guilder of imported crude oil), an expected price rise of 70 per cent in petroleum products was expected, as a result of a 140 per cent crude oil price increase. This import price increase would raise the price level of Sweden's private consumption by 0.6 per cent. Finland imports 28 per cent of its liquid fuel requirements in the form of petroleum products.

[76] The numbers used here are based on calculations made by the OECD under lower oil price increase assumptions, OECD, *Economic Outlook*, No. 14, December 1973, Paris.

$$\overset{\circ}{PC}_t = 0.216\ \overset{\circ}{PC}_{t-1} + \overset{\circ}{PO}_t$$

where

$\overset{\circ}{PC}$ is the percentage change of consumer prices

$\overset{\circ}{PO}_t$ autonomous price change

$\overset{\circ}{PC}_1$ indicates the difference between the price change with and without autonomous price change.

Using this equation and the primary increases in the private consumption sector (table 2.7) as an autonomous price change, the secondary effects were calculated. For the countries considered here, these effects ranged between 0.3 and 1.2 per cent. The range of the total of these secondary effects can be summarized as:

	Per cent
Imports:	
Oil-using . . .	0.3
Coal-using . . .	0.1
Mark-up	0.5–1.0
Wages	0.3–0.8
	1.2–2.2

These increases of 1.2 to 2.2 per cent in the price level of private consumption are, of course, in addition to the primary effects, which ranged between 1.2 and 3.9 per cent. It could also be assumed that the secondary effects would increase export prices by the same amount.[78] Export price increases had previously been calculated to be between 1.9 and 6.8 per cent. Again it should be stressed that all of these calculations required a number of assumptions. Consequently, they can serve only as crude indications of the magnitudes to be expected.

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[77] The following equation results from equations describing the joint determination of wage and price level:

$$\overset{\circ}{W}_t = 0.60\ \overset{\circ}{PC}_{t-1} + Z_{t-n}$$

$$\overset{\circ}{PC}_t = 0.36\ \overset{\circ}{W}_t + X_{t-n} + \overset{\circ}{PO}_t$$

where W_t is the change in wage rates and Z and X are both autonomous changes in the system, OECD, *Economic Outlook*, 14 December 1973, p. 119. This relationship must be used with caution for individual countries since it was constructed on the basis of the quarterly wage equations for the seven major OECD countries. Furthermore, the magnitude of the present exogenous shock, as well as the high prevailing rate of inflation, leave the continued validity of the estimated coefficients in question.

[78] In one sense, the secondary effects are an overstatement of the effect that they will have on export prices. Only the indirect effect of higher import prices will affect exports.

TABLE 2.7

Primary effects of energy price increases on the price level of private consumption and exports

(Percentages)

	Private consumption			*Exports*		
Country	*140% crude oil (and natural gas) price rise*	*40% coal price increase*	*Total*	*140% crude oil (and natural gas) price rise*	*40% coal price increase*	*Total*
Belgium	2.0	0.7	2.7	2.6	0.7	3.3
Finland [a,b]	1.9	[a]	1.9	1.9	[a]	1.9
France	1.2	0.5	1.7	3.9	0.5	4.4
Germany, Federal Republic of	2.0	2.1	4.1	2.0	2.2	4.2
Ireland [b]	2.7	0.3	3.0	3.7	0.0	3.7
Italy	2.0	0.2	2.2	4.6	0.1	4.7
Netherlands	3.3	0.6	3.9	6.2	0.6	6.8
Portugal	1.1	0.1	1.2	2.6	0.1	2.7
Spain	1.4	0.4	1.8	3.4	0.4	3.8
Sweden [a,b]	1.6	[a]	1.6	2.1	[a]	2.1

[a] The effects of the coal price increase are included in the oil and natural gas estimate.

[b] Also included is the effect of a 70 per cent increase in the price of imported petroleum products.

ANNEX

Structure of energy consumption in ECE countries

The statistical tables which are presented here are intended to provide a synopsis of inter-country and inter-regional differences in the utilization of various energy sources. Of current interest is the consumption of oil by the countries of the ECE region relative to the other primary energy sources. Besides providing background information for section 1.2, the information is useful for assessment of the vulnerability of various countries to the reduction in supply of an energy source. Also, the potential for the saving of energy without disrupting industrial production can be estimated.

Table 2.8 presents for each country the contribution provided by primary energy sources (solid fuel, petroleum, gas, and electricity generated by hydro or nuclear means) to its total primary energy requirements (the summation of domestic production plus imports minus exports for all primary energy sources). It is interesting to note the relative dependence of the western ECE countries on oil (oil provides about 55 per cent of all primary energy supplies) while it furnishes only 16 per cent of the primary energy in eastern Europe. On the other hand, eastern Europe's dependence on coal is evident since it provides 73 per cent of the primary energy.

Of the west European countries, Denmark, Finland, Italy, Portugal and Spain are the most dependent on oil with this mineral

TABLE 2.8

1971 shares of energy sources as a percentage of primary energy supplies[a]

Countries and regions	*Coal*[b]	*Oil*	*Natural gas*	*Hydro/Nuclear*	*Total*
EEC					
Belgium/Luxembourg	25	64	11	—	100
Denmark	15	84	—	1	100
France	23	66	7	4	100
Germany, Federal Republic of	37	55	7	1	100
Ireland	44	55	—	1	100
Italy	7	80	10	3	100
Netherlands	6	60	34	—	100
United Kingdom	47	44	8	1	100
Total EEC	31	55	12	2	100
Other Europe					
Austria	37	20	28	15	100
Finland	21	69	—	10	100
Greece	38	59	—	3	100
Norway	8	46	—	46	100
Portugal	9	79	—	12	100
Spain	21	57	2	20	100
Sweden	10	62	—	28	100
Switzerland	5	54	—	41	100
Turkey	35	64	—	2	100
Yugoslavia	56	33	5	6	100
Total other Europe	27	56	3	15	100
Total western Europe	30	55	11	4	100
Eastern Europe					
Albania	14	83	—	3	100
Bulgaria	65	33	1	1	100
Czechoslovakia	82	14	4	1	100
German Democratic Republic	83	13	3	—	100
Hungary	56	26	15	2	100
Poland	86	8	6	—	100
Romania	20	32	47	1	100
Total eastern Europe	73	16	10	1	100
Total Europe	41	45	11	3	100
Canada	12	53	23	12	100
United States	19	45	33	2	100
Soviet Union	39	35	25	1	100
Total ECE region	31	40	26	3	100

Source: World energy supplies (1969-1971) United Nations, *Statistical Papers Series J*, No. 16; The coefficients used to convert energy types into coal equivalents are those given in this reference.

[a] Supplies defined as production plus imports minus exports.

[b] Solid fuels.

providing 84-68 per cent of their energy supplies. Austria, the Federal Republic of Germany, the United Kingdom and the United States are the least dependent. Gas is a major source of energy only in Austria, the Netherlands, and Romania.

Table 2.9 shows the dependence of the countries on energy imports to fulfil their total primary energy requirement as well as the percentage of each energy source which is imported. Again, regional differences are striking with eastern Europe showing a high self-sufficiency, importing only 17 per cent of its energy needs. The west European nations have substantially higher energy import requirements (around 60 per cent of all energy is imported). More dramatic is the almost total dependence on foreign energy supplies of Denmark, Finland, Italy and Portugal.

TABLE 2.9

Net imports of each primary energy source as a percentage of its apparent consumption

Countries and regions	*Coal*	*Oil*	*Natural gas*	*Hydro/ Nuclear* [a]	*Net imports Total primary energy*
EEC					
Belgium/Luxembourg	44	100	99	72	84
Denmark	100	100	—	97	100
France	30	98	42	7	75
Germany, Federal Republic of	−11	93	29	43	42
Ireland	28	100	—	—	68
Italy	93	99	1	7	86
Netherlands	42	97	−66	—	49
United Kingdom	—	100	4	—	46
Total EEC	7	98	1	14	61
Other Europe					
Austria	68	—	43	11	39
Finland	100	100	—	20	92
Greece	10	100	—	—	62
Norway	65	95	—	1	49
Portugal	60	100	—	3	85
Spain	19	100	100	1	74
Sweden	100	100	—	9	74
Switzerland	100	100	100	14	65
Turkey	—	61	—	—	38
Yugoslavia	11	63	—	1	27
Total other Europe	30	90	38	6	60
Total western Europe	10	97	3	10	61
Eastern Europe					
Albania	6	—	—	—	1
Bulgaria	32	96	—	14	52
Czechoslovakia	—	98	57	72	22
German Democratic Republic	10	97	—	43	23
Hungary	18	71	5	98	32
Poland	−26	95	22	54	−14
Romania	17	17	—	1	9
Total eastern Europe	−3	70	8	54	17
Total Europe	4	94	4	13	50
Canada	38	−3	−56	2	−14
United States	−12	15	4	2	4
Soviet Union	−5	−23	2	—	−9
Total ECE region	−2	41	1	6	16

Source: World energy supplies (1968-1971) United Nations, *Statistical Papers Series J*, No. 16. The coefficients used to convert energy types into coal equivalents are those given in this reference.

[a] Exports not accounted for.

A similarity exists between most of the countries of eastern and western Europe in their near total dependence on imported oil to supply their oil needs.

The energy source base for the generation of electric power in the ECE region is compared for the countries in table 2.10. The percentage of total electric energy requirements which are provided by hydro, nuclear and geothermal energy are classified as primary production.

Iceland, Norway and Switzerland generate almost all of their electric energy needs via these methods. Secondary electric energy production implies the conversion of a mineral energy source to thermal energy, which in turn is converted to electric energy by mechanical means.

On a regional basis, western Europe depends on primary electric energy to fulfil a much larger percentage of its electricity need (32 per cent) than eastern Europe does (5 per cent). Western Europe depends on oil to a much larger extent in the generation of secondary electric energy while eastern Europe depends to a greater extent on coal. Only in Belgium, Luxembourg, the Netherlands and Romania, countries which either have domestic supplies of natural gas or are close to the deposits, does this form of energy play a large role in electric power generation.

TABLE 2.10

Primary energy base of ECE region's electrical power generation

(Percentages)

Country	Primary production	Secondary production	Primary energy sources for secondary production: Solid fuels	Liquid fuels	Gaseous fuels	Other fuels [a]
Austria	58	42	12	13	17	—
Belgium	1	99	20	51	28	—
Cyprus	—	100	—	100	—	—
Denmark	—	100	19	81	—	—
Finland	50	50	19	22	1	8
France	39	61	26	26	9	—
Germany, Federal Republic of	8	92	68	12	11	1
Greece	25	75	46	29	—	—
Iceland	97	3	—	3	—	—
Ireland	12	88	33	55	—	—
Italy	37	63	4	54	4	1
Luxembourg	46	54	1	14	39	—
Malta	—	100	—	100	—	—
Netherlands	1	99	11	28	60	—
Norway	99	1	—	1	—	—
Portugal	79	21	4	14	1	2
Spain	56	44	19	24	1	—
Sweden	78	22	—	21	1	—
Switzerland	98	2	—	2	—	—
Turkey	26	74	44	30	—	—
United Kingdom	12	88	62	24	2	—
Yugoslavia	53	47	42	5	—	—
Western Europe	32	68	37	24	7	—
Albania	50	50	..	..	..	..
Bulgaria	10	90	..	..	..	..
Czechoslovakia	6	94	88	3	3	—
German Democratic Republic	2	98	91	3	4	—
Hungary	1	99	50	35	14	—
Poland	3	97	90	2	4	1
Romania	11	89	32	3	52	2
Eastern Europe [b]	5	95	79	5	11	—
Europe (excluding Soviet Union) [b]	27	73	45	20	8	—
Soviet Union	16	84				
Europe (including Soviet Union)	24	76	..	..		
Canada	76	24	16	4	4	—
United States	18	82	43	14	25	—
ECE [c]	24	76	43	17	16	—

Source: United Nations *Annual Bulletin of Electric Energy Statistics for Europe 1971*, New York 1972.

[a] Steam, waste products.

[b] Excluding Albania and Bulgaria.

[c] Excluding Albania, Bulgaria and the Soviet Union.

Table 2.11 allows for the comparison of the consumption patterns of primary and secondary energy between the countries of western Europe.[a] For each country, the percentage of total primary and secondary energy used by each of its five major consuming sectors is given. Finally, the relative utilization of the primary and secondary energy sources in each of the five major consuming sectors is presented for the western ECE countries in table 2.12. There is a wide variation in the use of oil as an energy source in the production of iron and steel. Relatively large amounts of oil are used in the steel industries of Denmark, Greece and Ireland. On the other hand, there is a high uniform use of oil in the transport industries of all countries.

INPUT-OUTPUT-ANALYSIS

Input-output analysis was used to determine the increase in the price levels of the major components of final demand resulting from energy price increases. To calculate the price effects of the crude oil price increase, a national table of import coefficients which reflects

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[a] In each country, varying percentages of primary energy sources are used to generate electric energy. The resulting electric power plus the remainder of primary energy sources represents energy which is available for final consumption. The calculation of this sum requires the use of energy balance techniques.

TABLE 2.11

Percentage of primary and secondary energy requirements used by five major consuming sectors (1971)

Countries	*Iron and steel*	*Other industry*	*Chemical industry*	*Domestic and other*	*Transport*
EEC					
Belgium	20.8	19.6	6.6	38.5	14.5
Denmark	0.4	21.9	*a*	67.6	10.1
France	6.5	27.2	7.2	39.7	19.4
Germany, Federal Republic of	12.4	20.0	6.6	42.7	18.3
Ireland	0.8	45.6	*a*	32.4	21.2
Italy	8.8	37.3	*a*	34.6	19.3
Luxembourg	82.8	2.5	1.4	9.0	4.3
Netherlands	7.7	14.7	15.5	45.6	16.6
United Kingdom	10.7	25.0	5.8	39.4	19.1
Austria	12.7	29.5	*a*	37.9	19.9
Finland	8.0	34.3	*a*	40.4	17.3
Greece	8.5	33.0	*a*	21.5	37.0
Norway	16.6	34.4	*a*	32.8	16.2
Portugal	5.5	34.7	*a*	28.7	31.1
Sweden	9.3	29.3	*a*	45.5	15.9
Switzerland	0.6	26.4	*a*	48	25.1
Total western Europe [b]	10.5	30.6	*a*	40.4	18.5

Sources: Annual Bulletin of Electric Energy Statistics for Europe 1971, United Nations, New York 1972; OECD, *Statistics of Energy 1957-1971*, Paris 1973.

[a] Included in other industry.

[b] Excluding Iceland, Spain, Turkey and Yugoslavia.

both direct and indirect requirements of oil was used for each country. (In all of the west European countries, imported oil accounts for 97-100 per cent of their oil requirements.) Similarly the direct and indirect requirements of coal were also accounted for in the calculation of the effect of coal price increases on domestic price levels. Separate calculations were made for the price effects of domestically produced and imported coal. In a number of west European countries, coal imports account for a large fraction of total coal use.

The application of input-output analysis to the problem of cost-push price increases requires the following assumptions:

1. All sectors experience constant returns to scale.
2. Inputs are utilized in constant proportions.
3. The price increases of energy inputs are passed on in full.[b]

Under these assumptions, it can be shown that the percentage price change in each sector is equal to the coefficient of direct and indirect energy requirements times the percentage price change of the energy input. Once all sectoral price changes have been calculated, an index of price change for each major component of final demand can be constructed from national incomes information provided in the input-output tables.

Where possible the *Input-Output Tables for 1965*, a series of national tables currently being standardized by the Economic Commission for Europe, were utilized for the calculations. Unfortunately, only the tables for Belgium, Finland, France, the Federal Republic of Germany, Italy, the Netherlands, Portugal and Spain were available for immediate use. The tables are composed of 45 sectors. Manual calculations were performed for Sweden using a 36 sector table. A minor problem encountered in the use of the standardized tables was the classification of natural gas and crude oil extraction in the same sector.

Other classification problems were as follows:

1. Portugal: oil is classified along with mineral extraction.
2. Finland and Sweden: oil, coal, and gas production are all classified together.
3. The Netherlands and the Federal Republic of Germany: oil extraction and petroleum refining are classified together.

A criticism of the use of input-output tables from around the year 1965 for price calculations is that the oil using industries in most countries have become much more oil intensive in production in the past nine years. Since price increases are directly proportional to the oil content of the industries, the use of dated tables will lead to an underestimation of price increases. On the other hand, the fixed technical coefficient assumption used would tend to an over-estimation of the current price increases. A scarcity of oil and higher oil prices may lead to an economization of oil and thus a reduction of oil content per unit of output. Secondly, if other energy forms can be substituted for oil in the short run, this will also reduce oil content. However, in this study this possibility has been partially accounted for by the consideration of the effects of gas and coal price increases.

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[b] Most national price and incomes policies allow for cost increases to be passed on in full.

TABLE 2.12

Relative utilization of primary and secondary energy sources in five major consuming sectors, 1971

(Percentages)

	Austria	*Belgium*	*Denmark*	*Finland*	*France*	*Germany, Federal Republic of*	*Greece*	*Iceland*	*Italy*	*Luxembourg*	*Netherlands*	*Norway*	*Portugal*	*Sweden*	*Switzerland*	*United Kingdom*	*Western Europe* [b]
Iron and steel																	
Oil	30.8	11.3	100	16.2	30.7	17.9	63.3	60	22.8	13.6	14.6	3.4	19.4	40.5	—	33.3	23.1
Electricity	7.7	6.1	—	5.8	9.5	7.5	2.2	—	14.4	3.7	6.0	81.0	8.8	17.3	71.8	7.6	10.6
Other energy	61.5	82.6	—	78.0	59.8	74.6	34.5	40	62.8	82.7	79.4	15.6	71.8	42.2	28.2	59.1	66.3
Other industry																	
Oil	44.6	55.3	82.1	58.8	68.7	57.0	65.2	54.3	63.9	54.0	31.9	58.0	64.4	60.3	73.4	51.2	54.5
Electricity	18.1	12.6	9.3	29.6	13.9	17.7	23.7	7.3	16.2	17.5	15.8	31.0	24.2	30.3	21.8	13.2	17.6
Other energy	37.3	32.1	8.7	11.6	17.4	25.3	11.1	38.4	19.9	28.5	52.3	11.0	11.4	9.4	4.8	35.6	27.9
Chemical industry																	
Oil	*a*	44.8	*a*	*a*	33.7	32.8	*a*	*a*	*a*	85.3	10.2	*a*	*a*	*a*	*a*	39.4	*a*
Electricity	*a*	24.2	*a*	*a*	20.2	28.6	*a*	*a*	*a*	14.7	11.0	*a*	*a*	*a*	*a*	20.0	*a*
Other energy	*a*	31.0	*a*	*a*	46.1	38.6	*a*	*a*	*a*	—	78.8	*a*	*a*	*a*	*a*	40.6	*a*
Domestic and others																	
Oil	55.1	56.6	84.4	84.6	60.1	62.6	61.2	44.9	70.5	73.5	38.8	50.7	48.7	83.2	78.1	21.9	55.3
Electricity	14.4	6.6	8.4	12.1	9.4	11.2	23.9	19.5	11.0	9.0	8.6	39.4	16.0	15.1	16.2	19.9	13.1
Other energy	30.5	36.8	7.2	3.3	30.5	26.2	14.9	35.6	18.5	17.5	52.6	9.9	35.3	1.7	5.7	58.2	31.6
Transport																	
Oil	85.6	97.5	93.3	98.7	97.0	94.0	99.0	100	92.2	97.2	97.5	97.7	96.2	96.3	95.3	98.5	95.8
Electricity	4.7	1.5	1.4	0.2	2.3	2.4	0.2	—	2.0	0.9	1.3	2.3	1.3	3.6	4.7	0.9	2.0
Other energy	9.7	1.0	5.3	0.1	0.7	3.6	0.8	—	5.8	1.9	1.2	—	2.5	0.1	—	0.6	2.2
Total																	
Oil	55.0	52.0	84.8	72.7	65.8	59.7	76.7	61.0	68.0	24.6	41.2	52.9	67.3	74.6	80.7	46.1	59.2
Electricity	12.7	5.3	7.9	15.5	10.0	11.6	13.2	9.7	11.5	4.5	8.6	37.4	13.9	17.9	15.1	13.3	12.2
Other energy	32.3	42.7	7.3	11.8	24.2	28.7	10.1	29.3	20.5	70.9	50.2	9.7	18.8	7.5	4.2	40.6	28.6

Sources: Annual Bulletin of Electric Energy Statistics for Europe 1971, United Nations, New York 1972.
OECD *Statistics of Energy 1957-1971*, Paris 1973.

[a] Included under other industry.

[b] Excluding Iceland, Spain, Turkey and Yugoslavia.

3. ECONOMIC PROSPECTS

Even before the effects of the limitations of oil supplies and of rising oil prices had to be considered, the economic outlook for 1974 was being tempered in the course of 1973. Forecasts for 13 industrialized west European countries made before the oil price developments, indicated an average growth rate for 1974 of 4.3 per cent, which is below the long-term trend. The reasons for this anticipated deceleration were to be found both on the supply and on the demand side. One can hardly speak of over-all resource limitations since most countries showed less intensive utilization of both labour force and technical capacity than had been the case, for example, in the previous boom. But in 1973 there were scarcities with regard to various types of skilled labour. Over-all capacity utilization in industry has, historically, not been very high, although there are exceptions such as France and Spain (cf. section 1 (ii)). But some branches of industry reached capacity ceilings at an early stage of the boom, notably in the forest industries, in petro-chemicals and in branches of the engineering industry. Shortages of basic materials and of food products also developed.

In addition to the supply bottlenecks which acted as a brake on the rate of increase of production, there were dampening developments on the demand side. The wage and price increases partly stimulated by rising import prices led governments to become more restrictive in their economic policies. Restrictive monetary policies in particular seem to have had a rapid impact on housing. The price increases have furthermore had a direct effect on real wages. With a few exceptions, real hourly earnings, on average, increased less in 1973 than in 1972. Disposable real income of households increased at a slower rate than expected and in most countries slower than real GDP. Thus the growth of private consumption in the second half of 1973 was considerably reduced in Canada, the United Kingdom, and the United States. In the Federal Republic of Germany there even appears to have been an actual decline in private consumption between the two halves of 1973. In Denmark, France, Ireland and Italy, on the other hand, real wages seem to have increased somewhat faster than in 1972. The main factors increasingly limiting the rate of growth of total production in 1973 were in any case expected to have a continuing effect in 1974, with the possibility, however, of private fixed investment and stock-building giving some impetus to growth in the course of the year.

The industrialized countries in 1973 were not only heading for a slow-down of growth in 1974 but there were also prospects of continued large increases in domestic price levels. The effects of recent developments in the energy field are now superimposed on these existing tendencies. A rise in oil prices will tend to dampen demand and create supply bottlenecks in important sectors of the economy, and exert an extra cost push. The combination of steeply rising domestic prices and slower growth is thus aggravated, although the basic problems already existed and called for delicately balanced cost and demand management.

The development of oil prices, on the other hand, appears to create a completely new situation with regard to the management of the external balances of various countries and of the region as a whole. Imbalances in international liquidity can be overcome by global strategies for pooling and stand-by arrangements to enable individual countries to cope with future developments. If oil prices actually stay at the high levels announced at the end of 1973 (at the Teheran meeting) there will be an acute need for co-ordinated compensatory measures to be taken at an international level. If they settle at a level closer to the prices announced in October, the problems will be much more manageable. It is in any case important that help be given to individual countries in order to cope with the problems of growth and employment created by the new situation.

In the following a brief assessment is given of the main problems indicated above: resource limitations and the related developments of commodity prices, demand and output and the balance-of-payments situation. There follows a discussion of the economic problems facing various governments in the near future and the challenge these problems pose for international co-operation.

(i) Resource limitations and commodity prices

The December deliveries from OAPEC fell below the September level by 12-15 per cent. This corresponds to a decline of about 6-8 per cent of total world exports of crude oil and perhaps to 10 per cent less than estimated requirements given the expected growth of output. There have been considerable differences between countries with regard to actual shortfalls and between their capabilities of offsetting these shortfalls through energy saving and substitution (cf. chapter 1, section 2).

So far there has not, however, in western Europe been much disturbance caused by physical shortage of oil supplies. The exceptionally mild winter has helped a lot. There has been scope for saving and substitution in industry, the motivation for which was absent when supplies were abundant and oil prices relatively low. Such possibilities can be expected to be extended further in the future. But, in the short run, industry seems to be vulnerable beyond a definite reduction in energy supply, beyond which limit there is a relatively rigid trade-off against reductions in output. A major part of the short-run elasticity in the system therefore has been provided by various kinds of voluntary and imposed savings by the non-industrial sectors. In the economy as a whole, savings seem to have been in the range of 10-15 per cent. The ingenuity with regard to savings has been impressive as witnessed by the multitude of devices used.

Growth can probably continue in 1974 if actual supplies do not fall significantly below the embargo level announced for January. The assumption is that industry can forsake the increase of oil supplies planned for 1974 and that savings in the economy are retained. An indication of an improved situation is anyway that several of the restrictions on oil consumption were abandoned during the first months of this year; but some restrictions may be in force for a longer time. The strategy is to keep back the energy consumption of the non-industrial sectors in order to protect the productive potential and employment of industry.

Other supply problems related to shortfalls of oil and oil products, however, cannot be ruled out in the future. The probability of this occurrence will depend upon which of the conflicting strategies will be followed by oil producing countries. One possibility is to keep supply relatively abundant and at a price below that announced in December; this strategy would aim to keep oil in the energy picture for a considerable time to come and avoid giving oil consuming countries too strong and immediate incentives for developing oil substitutes. The argument for such a strategy would be strengthened if the demand for oil was price elastic, even in the short run. Another strategy would be to set relatively high prices and adapt oil production and deliveries accordingly. This latter alternative would obviously pose difficult short-term problems for the oil consuming countries. In this case restrictions on output growth from the supply side must be reckoned with, at least in some countries, and the implications for inflation and the balance of payments might become even more severe. There is finally a possibility of an increasing "free" market emerging for oil if oil producers do not follow a concerted strategy. There might then be a tendency for oil prices to fall back. It is impossible at the moment to ascertain the probabilities of each of the alternatives indicated above. One has therefore to consider—as will be done in the following sections—the effects of a range of price assumptions as a basis for a discussion of the prospects for growth, inflation, balance of payments and terms of trade.

Balances of payments and terms of trade, however, may also be strongly affected by changes in commodity prices other than that of oil. The extraordinary commodity boom of 1973 with prices typically doubling over the year and with many tripling or even quadrupling, has far exceeded the Korean boom of the early 1950s. Fundamentally it has reflected a strong rise in demand, meeting considerable shortfalls in supply. The 1972-1973 boom in output was relatively modest for western Europe but it was closely synchronized with the strong upswings in North America and Japan. Strong demand also emanated from east European countries. The current demand was further strengthened by the need to replenish stocks which were unusually low at the end of 1972. Commodity stocks have been on a downward trend for quite some time. An adjustment to higher levels, which now might be viewed as normal with regard to increased uncertainties about supplies and deliveries, is increasing demand considerably. On the supply side, 1973 was marked by a coincidence of particular adverse factors—poor harvests, severely reduced supplies of many products (wheat, maize, oilseeds, cocoa, coffee, cotton, etc.) while strikes, plant break-downs and other difficulties seriously affected metal supplies (copper, zinc, aluminium). Supplies were also affected by transport bottlenecks, and for many products supplies of synthetic substitutes failed to grow sufficiently due to capacity constraints. Overlaying this situation of severe sectoral imbalances between supply and demand has been an exceptional speculative currency- and inflation-hedging demand for commodities which affected a large number of markets and which was particularly intense in the last quarter of the year and early in 1974.

The underlying market imbalances should be significantly reduced during the course of 1974 as commodity supplies will increase, many under the stimulus of higher prices. Some primary commodity producers may try to resist a fall in prices, but the prospects of other producer cartels being as successful as that of the oil producers is rather slight. The rise in food prices should anyway decelerate with lower prices for grains, fats and oils and sugar. Meat prices may continue to rise since the supply shortfall reflects rather longer-term factors in the market situation, but improved supplies of foodstuffs could lead to a lower rate of increase. Metal prices are sensitive and could fall sharply as a result of lower demand and the removal of the various 1973 supply constraints. Some commodity prices may continue to rise as a result of the high energy content of production (aluminium, wood pulp). Higher oil prices will affect supplies of many synthetic materials as well as raising the production costs of many natural primary commodity producers. Such factors could help to resist a fall in prices. Similarly, higher fertilizer prices could offset some of the possible downward tendencies for food prices. Demand factors may change less spectacularly even if growth is rather moderate in the industrialized countries. In the event of a general recession commodity prices no doubt could start to fall dramatically. But in the more probable case of modest growth, changes in over-all demand might not have much bearing on commodity price developments. The replenishing of stocks would be one sustaining factor. There is also a possibility that part of the investment-seeking funds will find their way into the markets of basic materials, particularly to metals. This could, to some extent, benefit non-oil producing developing countries but would make stabilization of commodity prices difficult. It would also make future changes in terms of trade and balances of payments even more difficult to predict than they are already.

Finally, some account must be taken of the lagged effect of international spot market prices on national import unit price indices. Prices of a substantial part of international commodity trade are determined by sales under contract and other special arrangements rather than by free market prices: the increase in the latter has therefore not been fully reflected in import costs in 1973. To the extent that transactions prices follow spot prices, although with a lag and in a dampened form, import prices might be expected to be appreciably higher during the first half of 1974 than during the second half of 1973.

(ii) International trade

The underlying changes in 1973 appeared to be working in the direction of a better balance in world trade and were expected to continue in 1974 with an improvement in the current balance of the United States and a deterioration of that of Japan. The lagged effect of exchange rate realignments would also be expected to reduce the surplus of the Federal Republic of Germany and the deficit of Italy, and at least prevent further deterioration of the position of the United Kingdom (implying a considerable improvement in the volume trade balance). These tendencies will now, to a large extent, be submerged by the development of oil prices which will adversely affect the current accounts of all oil importing countries. Since the related domestic prices will vary and thus also the impact on domestic demand and growth, there might also be changes induced by the rise in oil prices in the relative cyclical position of various countries. Thus the non-oil parts of the trade balance may be affected by the oil developments in a way that also obscures the trends that would be visible in a more synchronized business cycle development (such as prevailed in 1972-1973 and was generally expected also in 1974).

At present there seems to be no point in basing the current account prospects on any precise assumption about the development of oil prices. The impacts on import bills are anyway proportional to price changes, although additional allowances have to be made for demand elasticities and induced exports to the oil producing countries. A low alternative would be to assume a price increase (c.i.f. landed price of Arabian light crude) of 45 per cent over the pre-October price level,[79] a high alternative would be a price increase of 150 per cent [80] (several countries in their forecasts for foreign trade made at the beginning of 1974 have assumed increases in the price of oil in the range of 150-180 per cent). Applying these price assumptions to the volume of imports foreseen for 1974, one can calculate the additional cost of oil imports. At the lower end of the range the added cost for *western Europe* would amount to 9-10 billion dollars.[81] (A cut of domestic consumption of oil from the likely 1974 level might reduce this increase by a couple of billions). At the upper end of the range the increase of the import bill would be about $30 billion. Allowing for some further reduction of demand at this higher price and allowing also for some additional rise in exports to the oil exporting countries, the additional cost would be some 20-25 billion.

On the lower price assumption the extra import cost for each of the four major west European countries, and assuming some domestic energy savings, would be in the range of $750-1,250 million which would significantly add to the burden of the deficits which had already been forecast for Italy and the United Kingdom. The North American countries would not be much affected since domestic savings on volumes could compensate for the price increase. At the upper price range, however, the impact on the import bill for each of the four major west European countries would be in the range of $3-4 billion (allowing for demand effects and induced exports). On this assumption hardly any west European country would avoid a deficit on current account (Sweden, the Federal Republic of Germany and the Netherlands might be exceptions) and the expected surplus of the United States would tend to disappear. The percentage increase of the import bill, on the higher price assumption, would be 10-15 per cent for the countries hardest hit, a group to which the south European countries, Spain, Greece and Turkey also belong. The countries least affected would experience an increase of 4-5 per cent.

Calculated in terms of GNP, the impact of the oil price increase for the west European countries would be in the range of 0.7-2.0 per cent at the upper price level and of 0.2-0.6 per cent at the lower level. Belgium, Italy, the United Kingdom, Denmark, Ireland and Finland would be relatively hard hit, Austria, Norway and Switzerland relatively lightly. These impacts are equivalent to deteriorations of the terms of trade which would be transmitted through to the domestic price system. If real expenditures (including exports) and thereby real GNP, were unaffected by the price changes, real domestic income would diminish by the loss of terms of trade. (The counterpart of this loss would be an increase of net foreign borrowing.) Real expenditures, however, might be affected by the price increases, the extent differing as between demand sectors.

By simulating the effects on individual economies (using input-output tables) of a given increase of the import price of oil, it emerges that prices for exports and private consumption are particularly sensitive. In these two sectors the elasticity of demand with regard to price changes might be relatively high and the price increases would thus directly affect production and employment. On the lower oil price assumption the range between countries for the consequent increase of export prices would be 0.5-1.2 per cent (the United States and Canada would both be considerably below this range). This does not seem to amount to much in terms of export competitiveness when on average the increase of export prices may be of the same magnitude as in 1973, i.e. some 8-9 per cent (in national currencies). But on the higher assumption for oil prices, the effect on export prices for most individual countries, would vary between 2 and 5 per cent.[82] The

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[79] The c.i.f. price is assumed to increase from $3.45 to $5.00. The corresponding posted prices are $3.00 and $5.11.

[80] The c.i.f. price is assumed to increase to $8.70. The corresponding posted price is $11.65.

[81] OECD, *Economic Outlook No. 14*, Paris, December 1973, p. 18. It is assumed here that the higher price will not decrease demand.

[82] For details of these calculations see chapter 1, section 2.

Federal Republic of Germany would be at the lower, the United Kingdom and Italy at the upper end of this range and the Netherlands considerably above. In this case there would thus be quite a change in the competitive position of various countries.

For the region as a whole the increase of export prices would, to some extent, improve the terms of trade. But since the industrialized countries largely trade with each other, the gains would tend to be offset by increased import prices. The latter "rounds" of export and import price increases would gradually be absorbed by domestic prices. Terms of trade *vis-à-vis* the oil producing countries would improve with increasing export prices from the industrialized countries. There is, however, a possibility that the oil prices will be linked to oil countries' import prices, in which case of course no net change would occur.

(iii) Output and inflation

Increase of total output

(Percentage)

Country	*1973*[a]	*1974*[b]	*1974*[c]
Austria	6	4½	4½
Belgium-Luxembourg	6	5	2½
Denmark	5	4	2½
Finland	5½	5	3
France	6	5½	4
Germany, Federal Republic of	6	3	0–2 (1½)[d]
Ireland	8	4½	. .
Italy	5½	7	4–5
Netherlands	5	3½	2½
Norway	4	5½	4
Sweden	3	5½	4
Switzerland	4½	3½	2
United Kingdom	5½	3½	–1
Total above	5½	4½	2
Canada	7	5½	4½
United States of America	6	2½	1
TOTAL	6	3½	1½

[a] National sources.

[b] Forecasts from OECD, *Economic Outlook No. 14*, Paris, 26 November 1973.

[c] Forecasts generally made in January-February (national sources) and secretariat estimates.

[d] From Annual Report of the Central Government and IFO Institute respectively.

At whatever level oil prices finally tend to settle,[83] there is one obvious effect to reckon with. Several countries in an already precarious balance-of-payments position will see this position worsened and become even less manageable than would otherwise have been the case. Italy and the United Kingdom can be mentioned as examples among the west European countries. India is one among the developing countries for which an urgent solution has to be found. A recession in the industrialized world would probably further worsen the terms of trade of most developing countries and have grave implications for their further growth.

The OECD forecasts for 1974, published after the October but before the December announcements of increases in oil prices, can be taken as a bench-mark for discussing output prospects. (This corresponds to the low oil price assumption above.) These forecasts for 1974 were, in most countries, significantly below the growth rates actually achieved in 1973, as is shown in the preceding text-table.

According to this comparison, only Italy, Norway and Sweden were expected, at the end of 1973, to accelerate their rate of growth between 1973 and 1974. Output in Italy and Sweden, in 1973, was still significantly below capacity levels and part of the slack was expected to be taken up in 1974. For some time there has been a boom in Norway marked by expanding private consumption and investments related to the exploitation of North Sea oil. On the other hand, there were indications of a notable slowing down of the rate of growth in two major west European countries, the United Kingdom and, particularly, the Federal Republic of Germany. In the United States the slow-down had become very marked towards the end of the year.

Country forecasts were revised at the beginning of 1974 and were generally based on assumptions corresponding to the upper limit of the above-mentioned range of oil prices. (See last column of the text-table.) On this assumption the average growth rate would be halved for the group of European countries as well as for the ECE region as a whole. To a large extent the revisions reflect the impact of higher prices on private consumption.

The direct impact on consumer prices of higher oil prices would presumably be somewhat smaller than the impact on export prices referred to above. It would also be more uniform for various countries and be centred around 0.5 and 2 per cent respectively for the two oil price alternatives.[84] Again this does not seem to mean very much since consumer prices generally can be expected to increase fast in 1974. But it will be hard for wage-earners to compensate themselves for price increases generated by oil prices—equivalent to a productivity decrease—since these will be looked upon by enterprises (and governments) as legitimate reasons for raising domestic prices. To some extent cost increases might, however, be absorbed by profit margins, which seem to have increased considerably in most countries in 1973. In those countries where energy prices are subsidized—as has been the case with food prices—there would be a dissaving by the government sector and no reduction in real demand.

These increases in consumer prices induced by higher oil prices only indicate "first round" impacts. Besides the possible secondary effects *via* a wage-price spiral, there will be the secondary effects *via* import prices as countries transmit to each other that part of the primary impact of oil prices that has been passed on to the export sector.

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[83] Chapter 1.2 analyses the implications of the "compromise" assumption that the posted oil price falls to $8.00, i.e. by about 30 per cent below the January announcement.

[84] In the fourth quarter of 1973 the contribution of the price increase of "fuel and light" to the increase in total consumer price (over corresponding period 1972) was 3.8, 1.7 and 1.4 percentage points in respectively Switzerland, Sweden and the Federal Republic of Germany. In Austria, Finland, France and the United States, on the other hand, the contribution was not more than about one-half per cent; in the United Kingdom it was only 0.2 per cent. This rise in relative "fuel and light" prices gives only a rough indication of the *direct* impact of higher oil prices on consumer price indexes.

The outlook as seen by national forecasters and budget planners before the present oil situation arose was for a deceleration in the rate of increase of consumer prices; for 13 north west European countries the average increase in 1974 ranged between 6 and 9 per cent. This *ex ante* outlook was largely based on the assumption of decelerating growth rates of production but in many countries it also assumed that price control and, in some, incomes policy would continue to be effective. The outlook now, based on a variety of oil price assumptions but also on the general assumption that supplies will not be cut further and will most probably increase through the year, is for a range of between 8 and 12 or 13 per cent with an average rate of increase of about 11 per cent. The uncertainty surrounding future rates of price increase stems as much from doubts as to whether the wage-price spiral can be slowed down as to what will be the course of oil prices.

The effect of price increases of energy resources other than oil and that of relative consumer prices will have to be considered also. The relative prices of various consumer goods and services are changing considerably due to the direct and indirect effects of higher energy prices. As a result, demand will tend to fall relatively for a number of goods such as large cars and motoring in general, for energy consuming household appliances and for all consumer goods with a high energy content.

Besides the revisions of forecasts for private consumption there are also downward revisions of investment plans. Investment should have been the driving force in 1974, but forecasts for the Netherlands, the Federal Republic of Germany, Finland and Switzerland show significantly lower rates of growth in 1974 than in 1973. In Norway and the United States, however, the growth of investment will be maintained, and in Sweden is likely to increase considerably.

For the smaller countries there are also significant downward revisions of export prospects in anticipation of a slower growth of their export markets in the larger countries (e.g. Sweden and Ireland *vis-à-vis* the United Kingdom, Denmark and the Netherlands *vis-à-vis* the Federal Republic of Germany). The south European countries foresee adverse effects on tourism and emigrants' remittances which would significantly hurt their current accounts. If domestic demand is dampened everywhere, all countries will, of course, suffer from lower exports and the growth of international trade will be dampened. The present outlook for the trade of industrialized countries is for a dampening of the rate of volume growth from about 14 per cent in 1973 to less than half that rate in 1974.

There are, naturally, considerable uncertainties about the course of future domestic demand. It is difficult to forecast household reactions to increases in consumer prices that will probably be even higher in 1974 than in 1973. Autonomous changes in private consumption could greatly affect the development of domestic demand in the near future. The present large increases in the price of petrol for driving, heating, etc.—following closely upon large increases in food prices—could cause such a lag in real expenditure that has lately been noticed in several countries. Since consumer confidence in several countries appears to be at a low level, the precautionary motive for saving and liquidity may also increase, as it seems to have done in the recession of 1971-1972. For some time at least, private consumption, on balance, will probably exert a dampening influence on economic growth.

Private investment is also very difficult to forecast. Capital goods industries in many countries had large order books at the end of 1973. But investors' confidence has been gradually dampened and plans revised downwards. There might be a counteracting expansion in fields that now seem attractive because of changes in relative prices of energy, certain basic materials, and oil-based products. But as the future is so unclear, entrepreneurs' planning horizons may have shortened, even allowing for the fact that new plans take some time to materialize. Thus, again, the prospects are for a dampening in the short run with the possibility of a revival later on. Furthermore, developments at the beginning of 1974 are still influenced by the lagged effects of the economic policies pursued during 1973. These policies, particularly monetary, were mainly restrictive. There has been some easing in fiscal policies but generally they have been neutral. Thus there would be not much of a stimulus emanating immediately from the public sector. In a longer perspective there might be a heavy concentration of public investment in basic energy and transport and of private investment also in energy saving projects and production.

(iv) Economic policies

The tendencies for a slowing down of domestic demand will be more or less pronounced in different countries and there may also be some exceptions, for example, France, Norway and Sweden. But generally speaking the big majority of countries appear to be in a similar position of moving towards less utilization of resources with slowly increasing unemployment. There is at present a hesitation to counteract this development with over-all expansionary economic policies, particularly since there are already prospects of improvements in growth rates during the course of the year (e.g. in the United States and the United Kingdom). The general attitude seems to be that with prevailing uncertainties some under-utilization of resources could be accepted since, in the short run, this would take the form of a slow growth of productivity rather than severe unemployment. Meanwhile there are standby arrangements in case the slowdown shows a tendency to become more general and aggravated.

In several countries there is, by contrast, considerable concern about excess demand in spite of the dampening effects of increasing domestic prices on private consumption. Policy makers are faced with complicated problems of demand management since over-all cost push and sectoral deficit demand can exist side by side. Imbalances of a bottleneck nature rule out an application of general policy measures in one direction or another and, instead, call for selective policies.

The Federal Republic of Germany and Sweden had significant unused resources at the end of 1973 and comfortable current account positions. The scope for reflation by general stimulation is thus a relevant issue for economic policy. Italy too has a considerable amount of unused resources but balance-of-payment considerations may limit the scope for reflation. In the United Kingdom the productive potential during the miners' strike probably was shrinking faster than over-all demand. After the settlement, production should be able to recuperate rapidly and might, for some time, run ahead of demand.[85]

In most of the other west European countries there seems presently to be less concern about a slow-down in growth in spite of the pessimistic forecasts turned out at the beginning of the year. Generally reflationary measures might also look inflationary in view of still prevailing sectoral resource limitations.

For each of the countries facing a deteriorating external balance the rational policy would appear to be to shift resources to exports. Such a policy would also maintain economic growth in the case of slackening domestic demand. For countries with full resource utilization such a shift of GNP would require no more than a temporary dampening of the growth of domestic expenditures. Once the shift to exports was achieved domestic expenditures could go on to grow much as if there had been no impact from higher oil prices (except for the effect of growth potential that may have come from the dampening of domestic investment). The problem is of course that countries striving and succeeding in compensating for losses in their terms of trade and for a deterioration of their current balances would further aggravate the position of other countries. For the region as a whole, the balance-of-trade loss, *vis-à-vis* the oil producing countries, can only be compensated by an increased net surplus *vis-à-vis* other regions. There will probably be a considerable increase of exports to oil producing countries induced by the higher oil prices and this should not be under-estimated.[86] But this induced export flow will be nothing like the developments that automatically have taken place before when developing countries have earned foreign exchange in connexion with rising prices of basic materials. Their foreign exchange reserves have been spent, with a relatively short time-lag, on imports from developed countries. This mechanism does not function now that the countries which accumulate foreign exchange do not have the absorptive capacity to spend them on imports. Another adjustment mechanism has to be found which will also take into account the fact that the non-oil producing developing countries will be worse off because of the oil situation.

The developing countries need additional resources to pay for the increase in their own oil import bill which has been estimated to be as much as 25 per cent of their total 1972 imports. There is also the risk of worsening terms of trade with the industrialized countries if the growth of these countries is seriously dampened. Finally there is a risk that foreign aid from the developed countries is cut back in a (self-defeating) effort to improve their current balance. There might instead be a case for increasing foreign aid from the industrialized countries to the extent they would otherwise have under-utilized resources. There is, however, a limit to such an increase because the absorptive capacity of the non-oil producing developing countries cannot expand very fast in the short run. Furthermore, the stepping up of foreign aid or the extension of short- or long-term lending to the developing countries might not, from the point of view of the industrialized countries, appear as a satisfactory solution to the continuous increases in their own indebtedness to the oil producing countries.

The immediate problems of international liquidity will be alleviated by capital reflows from the oil-producing countries. These reflows might be unevenly distributed but acute imbalances can be covered by a re-allocation between deficit and surplus countries. To a considerable extent short-term financing can also rely on existing gold and foreign exchange reserves. In the low-price alternative there would not seem to be very much of a problem in the short run as deterioration of the current balances and of the terms of trade would not be very large. But even in this case difficulties would eventually emerge as deficits and debts would accumulate year by year.

If the west European countries have, in the short run at least, to settle for large deficits on current account, they still have to consider not only the means by which growth and employment can be assured in the face of the dampened demand that will tend to emerge in such a situation, but also how these means can be selected to suit the new situation. There would, particularly, be an opportunity to expand investment, since private consumption, anyway, tends to be sluggish. Thereby the loss of savings in terms of the deterioration of the current balance could also, entirely or to some extent, be replaced by domestic saving. This at least would create opportunities to offset or disengage the burden of an increasing foreign debt in the future. As a matter of fact, it has been suggested that to some extent these real investments could take such a form that they would create attractive investment outlets for the large funds emanating from the earnings surpluses of oil producing countries. Any solution to this problem, however, involves difficulties concerning protection against inflation and devaluations that presumably only can be solved by international monetary co-operation.

Inflation is still another—but already old—problem to which no ready and practicable solutions have yet been found. The possibility of the expected rates of increase being reduced by existing policy initiatives in the field of prices and incomes appears modest. Direct action to control price increases was widespread in 1973 but there are few grounds for believing that these policies will be successful in breaking the wage-price spiral instead of bringing about a momentary deceleration in the consumer price index. The general experience with price freezes is that they lead to a sudden surge in the price index when they are relaxed; and if they are maintained for too long they can lead to a reduction in supplies and other distortions which simply build up further inflationary pressure. Incomes policies, which are much less widespread than price controls, have generally taken the form of short-run freezes on increases or of specified maximum increases. As with price controls, incomes policies have usually been an *ad hoc* response to a worsening inflationary situation and, similarly, their repeated renewal frequently leads to industrial unrest, and to severe distortions in the economy. While it may be true that an incomes policy is necessary to break the wage-price spiral, the policies so far followed in some countries have been rather narrow in application—falling considerably short of a genuine "social contract"—and applied only in the short run and, as such, have not been successful. There is widespread recognition of the fact that the current inflation is an international phenomenon but so far there has been little readiness to adopt a co-operative international policy approach; countries have rather tended to draw attention to the international nature of inflation as an explanation for the failure of their nationalist policies.

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[85] The forecast given in the text-table above, refers to the "optimistic" alternative given by the NIESR in its February report (1974:1).

[86] In the first ten months of 1973 there was an increase of 44 per cent of western Europe exports to "high absorption capacity" oil producing countries (Algeria, Indonesia, Iran, Iraq, Nigeria and Venezuela). Simply maintaining this rate—it will probably increase—would add a further $3 billion in 1974. Countries with a relatively large share of their exports going to the oil producing countries are the United Kingdom, Italy, France and Spain.

The short-run nature of current anti-inflation policies has been particularly noticeable in the area of trade controls in 1973. For input goods such as fertilizers and petroleum, as well as a number of agricultural products, a widespread reaction has been to promote imports and to restrict exports, a self-defeating combination which is ironically the reverse of the competing commercial policies of the 1930s. For some output goods with falling domestic demand, such as automobiles, there is a tendency (or temptation) to restrict imports and promote exports. But these are *ad hoc* measures taken to cope with a development that is of a long-term nature. There is now scope for international co-operation which takes into account the new trade and investment patterns that will emerge because of seemingly irreversible changes in relative prices and financial flows.

4. DEVELOPMENTS IN SOUTHERN EUROPE

(i) Introduction

In 1973 economic growth in the south European countries (except Turkey) was approximately the same as in 1972. For the second consecutive year there was a slowdown in the rate of expansion in Turkey, which in 1973 was exclusively due to a decline in agricultural production (table 4.1).

For the period 1970-1973 preliminary results show that total real output expanded in Greece by almost one-third, by about a quarter in the Iberian countries and by one-fifth in Turkey and Yugoslavia. The expansion had, however, different forms. In Greece, there was an acceleration in 1972 and 1973 of an already extremely high rate of expansion. In Portugal the fluctuations remained limited and the rate of expansion remained steady. In Spain, changes in the growth of total output correspond closely to changes in an industrial cycle increasingly convergent with that of industrial western Europe. In Turkey the changes in the rate of expansion reflect the fluctuations of the agricultural sector. In Yugoslavia a deceleration of growth has occurred in the last three years, partly under the influence of demand restraining policies and partly because of the emergence of capacity bottlenecks in industries producing primary and intermediate inputs for manufacturing. This last factor was strongly influenced by an earlier switch of capital formation toward non-productive sectors.

There is a broad similarity in the economic developments of southern Europe with regard to the driving demand forces. In 1972, foreign demand was the most expansive sector of total demand except in Spain. The growth of the foreign demand sector seems to have accelerated in 1973 in every country except Greece and Yugoslavia. Only in Spain has the growth of foreign demand been exceeded in 1973 by that for fixed capital formation. In other south European countries in 1973 (except Yugoslavia) the foreign sector and capital formation, in that order, were the most expansive sectors of total demand.

The rate of inflation accelerated in 1973. This was particularly the case in the three fastest expanding countries—Greece, Portugal and Spain.

The rapidly rising demand pressure in Greece was also reflected in 1973 in the deterioration of its current balance, corresponding to about 0.6 per cent of GNP. In the Iberian countries, the current account seems to have changed little. There seems, however, to have been a marginal increase in the current surplus of Portugal and a somewhat more sizeable decline in that of Spain. Turkey moved from virtual equilibrium in 1972 to a small current surplus in 1973. In Yugoslavia the current surplus increased also in 1973.

As is the case for western Europe at large, economic prospects for 1974 in south European countries will be considerably influenced by supplies and prices of oil. But during the course of 1973, expansion in the Spanish economy was already tending to calm down. In Greece, inflationary pressures were already such that a policy of restraint with likely dampening effects on the rate of output expansion was becoming necessary.

Southern Europe will be affected by a dampening of growth in western Europe, particularly because of the following reasons:

(*a*) Tourism receipts are important for all of these countries (to a minor extent for Turkey) and represent a fundamental and rapidly growing balancing item for their structural commodity-trade deficit. In the event of a recession in western Europe, tourism expenditure might decline rapidly as this item seems to be very income elastic.

(*b*) Emigrants' remittances from industrial countries also provide an important balancing item in the external payments, particularly for Turkey. If the labour markets of the industrial countries slacken, these flows could not only stagnate (there were already some signs of this in 1973) but even decline.

(*c*) There will be a slow-down of exports. Southern Europe's commodity exports to western Europe have been growing quickly during the last decade, and in the case of manufactured goods, increased market shares in the industrial countries being achieved. This factor is particularly important for Portugal and Greece.

There are, however, important differences between countries. Greece seems to be the more vulnerable country, since it combines a large trade deficit—relative to GNP—with an unfavourable energy balance because of its high degree of import dependence.[87] In Spain the situation is worse than that of Greece from the point of view of energy import dependence, but its present high level of external reserves and the relatively small dependence of its economy on exports should give this country better short-term possibilities of adjustment to a new situation. In Turkey the total energy balance is considerably less import dependent than in the other south European countries. The present level of reserves, less dependence on tourist receipts, and the fact that emigrant remittances will probably be less affected in the short run by a recession also seems to give Turkey a certain lee-way for policy adjustments. Portugal stands in a unique situation. Its energy balance—considering Metropolitan Portugal alone—is extremely unfavourable, but Angola

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[87] Oil accounts in Greece for a lower proportion of the total energy balance than in other southern countries.

TABLE 4.1

Annual changes in output and prices, by sector, in selected south European countries

(Percentages)

	Greece			Portugal			Spain			Turkey		
	1971	*1972*	*1973*	*1971*	*1972*	*1973*	*1971*	*1972*	*1973*	*1971*	*1972*	*1973*
Changes in output, at constant prices (percentage changes over preceding year)												
Gross domestic product at factor cost	7.5	10.6	10.1	7.0	7.5	. .	5.3	8.1	8.1	9.4	6.1	4.8
of which:												
Agriculture	2.6	3.4	−0.8	−5.0	. .	. .	7.8	3.0	5.5	13.1	−0.2	−8.8
Industry	11.0	13.9	17.2	10.0	. .	. .	5.5	12.0	10.8	10.2	11.5	13.1
Construction	7.7	20.1	12.0	23.7	. .	. .	−1.0	9.0	9.0	−4.5	7.2	8.9
Services	7.4	9.8	9.4	6.5	. .	. .	5.2	7.2	7.2	8.8	7.8	8.8
Price changes (percentage changes over preceding year)												
GDP deflator	3.3	4.8	16.2	4.7	. .	. .	7.6	. .	. .	17.5	14.5	15.9
Wholesale prices	3.5	6.3	23.4	1.9	5.7	11.3	5.7	7.6	10.2	15.9	18.0	18.8[a]
Consumer prices	3.0	4.3	15.5	11.9	10.7	12.9	8.2	8.3	11.4	16.3	12.9	16.6[a]
of which: Food	5.1	3.9	21.3	8.6	9.9	9.2	7.8	9.1	12.7	14.0	11.0	20.2[a]

Sources:

Greece: Bank of Greece, *Monthly Statistical Bulletin*; National Statistical Service, *Monthly Statistical Bulletin*; direct communication to secretariat from the Ministry of Co-ordination and Planning (March 1974).

Portugal: Instituto Nacional de Estatistica, *Anuario estatístico*, *Folha de divulgação*, *Contabilidade nacional*; and *Bolletim mensal de estatistica*; Ministerial statement on budget.

Spain: Instituto Nacional de Estadistica, *Contabilidad nacional de España, Años 1964 a 1971 y avance de 1972*; and *Boletín mensual de estadística*; Ministerio de Hacienda, *El presupuesto y la economía espanola 1974*; Banco de España, *Boletin estadístico*, Instituto Nacional de Estadística.

Turkey: *T. C. Resmî Gazete*, 25 January 1974; State Institute of Statistics, *Aylik fiyat indeksleri bülteni*, and *Monthly Bulletin of Statistics*.

All countries: ECE indicators.

[a] January-November.

has lately emerged as an important net exporter of oil. For the escudo currency area as a whole, the higher price of oil could result in a favourable terms of trade effect.

(ii) Output, demand, and prices

For the second consecutive year the *Greek* economy achieved a rate of growth of output in 1973 of more than 10 per cent, which is well above the average annual rate in the post-war period. This exceptionally fast rate of growth of output was maintained in 1973 because the acceleration in the rate of growth of the secondary sector —mainly manufacturing—offset a minor decline of agricultural production. Agricultural output is estimated to have recorded a marginal decline as the increase of output of some major crops (e.g. olives and tobacco) was offset by declines elsewhere (e.g. wheat and cotton). There was a widening of the current account deficit, while prices rose at a much faster rate than in the previous year.

An acceleration of domestic demand as well as the entering into production of newly created capacity led to an increase in the rate of growth of manufacturing; it rose by 18 per cent in 1973 compared with 14 per cent in 1972. The faster rate of increase was mainly accounted for by petroleum products, foodstuffs, textiles, metallurgical products and chemicals. A deceleration occurred in construction activity as a result of the measures taken towards the end of 1972, when bank credit for housing investment and approvals of new housing loan applications from buyers were suspended.[88] Services expanded at practically the same rate as in the previous year.

Official estimates of the volume of national expenditure in 1973 are not yet available, but it would appear that the acceleration of demand was mainly accounted for by *private consumption*. The increase of *investment* was higher than in 1972. There was a marked deceleration of investment in dwellings and a considerable acceleration of investment in transport and other equipment except ships. Payments for the import of capital goods increased by 48 per cent in 1973 compared with 35 per cent in 1972. This reflected an acceleration in the increase of private investment. Government investment, which was expected to rise faster in 1973 according to the 1972 budget, appears to have grown at a lower rate than in 1972, as the planned investment expenditure was revised downwards.

In 1973 consumer prices in Greece increased by 15.5 per cent over 1972, which compares with a 4.3 per cent increase in 1972 over 1971. The price increase accelerated throughout 1973 in the sense that the quarter to quarter increase 1973-1972 was 7.4 per cent for the first quarter, 10.5 for the second, 15.9 for the third and 27.8 in the fourth quarter. This reflected mainly an exceptionally fast growth of food prices, the result of both higher prices of domestic primary production and also the considerable increase of prices of imported foodstuffs and agricultural products following the currency re-alignment and the substantial rise of world market prices. The price increase acceleration of the last quarter followed the ending of the price freeze.

In *Portugal* GDP (at factor cost) expanded in real terms in 1972 by 7.5 per cent and the rate of expansion did not change substantially in 1973.[89] In both years the growth was accompanied by large price increases, but the relative strength of the main demand sectors has changed and the current balance was probably in somewhat greater surplus in 1973 than in 1972.

Agricultural output, which declined in 1972, does not appear to have recovered much in 1973.

In the absence of a recent index for industrial production, it is difficult to estimate recent changes in manufacturing in Portugal. It seems, however, beyond doubt that the growth of the industrial sector in 1972 and 1973 has been close to or above the 9.5 per cent target rate of growth foreseen in the (revised) Third Development Plan. Demand for industrial goods has risen sharply throughout the period September 1972 to September 1973, as is shown by the results of the Industrial Corporation half-yearly enquiries.[90] Foreign demand has again been the strongest factor behind the total demand for industrial goods. The index of capacity utilization, which was reported at 81 per cent in September 1972, rose to a record 85 per cent in September 1973 and stocks of finished products have decreased with increasing capacity utilization. If any slow-down in the rate of expansion of the industrial sector had occurred in late 1973—which is doubtful—it would be due to a lack of capacity rather than insufficient demand.

The rising demand pressure for industrial goods throughout 1973 was mainly centred on consumer goods, since demand for investment goods had already risen in 1972. Particularly large increments appear to have occurred in textiles (especially in cotton and artificial fibres), organic chemicals, wood and cork processing and basic metals. The output of public utilities seems to have expanded in line with manufacturing as a whole.[91] In mining the results are less encouraging, although a decline in coal production could be well offset by increases in the extraction of non-metal minerals and non-ferrous metals.

The construction sector, which had grown rapidly in 1972, seems to have continued its expansion in 1973, particularly in the public works and non-residential construction sectors.

The available indicators for the service sectors show that their rate of growth was not very different from that for the economy as a whole.

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[88] See, Bank of Greece, *Report for the year 1972*, Athens 1973, p. 94. Credits for housing show a rate of increase during the first three quarters of 1973 considerably lower than that for the corresponding period of 1972.

[89] According to a ministerial statement of November 1973.

[90] These enquiries, which cover 4,000 firms, show that the net balance among estimates of "weak" and "strong" demand passed from 1 point in favour of "weak" in September-October 1972 to 17 in favour of "strong" in March 1973 and to 34 in September-October 1973.

[91] Electricity generated increased by 12 per cent in 1973.

As has been the case in recent years, higher production seems to have had only a very limited effect on employment. The general index for wages in industry and transport relates to the second quarter of 1973 and shows an increase over the same period of 1972 of only 6.6 per cent in Porto and 12.6 in Lisbon. On the other hand, rural salaries (men) have increased very rapidly and in September were nearly 25 per cent above the level of 1972. Consumer prices have increased at an increasing tempo throughout 1973. The Lisbon general index was up 9.5 per cent over a year earlier in January, 12 per cent in June and 19 per cent in December 1972. The direct controls adopted in 1972 have had success in so far as the increase in food prices lagged 3 to 4 percentage points behind the increase in the over-all index. The aggravation of inflationary pressures—which to a considerable extent reflects the influence of rising world prices for primary products as well as internal supply constraints—led to the creation in October 1973 of the National Price Council. In this new organization will sit together representatives of the Government, corporations and consumers' organizations. Apart from information and research tasks, the new body will be entitled to negotiate "stability agreements" with firms and to grant in return certain credit and fiscal advantages, the latter in the form of accelerated depreciation allowances.

A precise quantitative assessment of the expansion of the main sectors of demand in Portugal in 1973 is not possible, but it seems clear that the export sector has been again the most expansive, followed probably by public investment and consumption and private gross fixed investment.

In 1973, *Spain*'s economy continued the vigorous expansion which began towards the end of 1971. Although the upward moving period of the cycle ended towards the end of 1973, GDP is expected to grow in real terms for the second consecutive year by some 8 per cent. The last two years are, therefore, the period of most rapid growth since 1962. Moreover, the present boom has lasted longer than the previous one (1968-1969) and has been more intense since capacity utilization and the orderbooks have reached record levels while inventories have fallen to a record low. Every sector of demand has participated in this expansion and every major sector of output has grown vigorously.

Agricultural production expanded by over 5 per cent in 1973. Most of the increase was in animal products, while crop production probably remained at about the same level as in the previous year. The fish catch has declined due to the limitations introduced by the extension of territorial waters in some African countries.

After increasing in 1972 by 12 per cent, value added in the industrial sector in Spain (including mining and public utilities) grew by about 11 per cent in 1973. The lower rate of growth is due to capacity limits. In November the total stock of orders suffered a minor contraction centred in investment goods and in December 1973 the stock of orders declined substantially—due to a decline in consumer goods. The level of inventories, however, continued to decline. Excess demand, measured as the differences between orders and stocks, reached its maximum—which was also an eight-year record—in October 1973, but capacity utilization (seasonally adjusted) reached its highest level during the first quarter of 1973 and has declined since, due mainly to inadequate supplies of manpower and intermediate inputs.

The construction sector began a strong recovery in 1972 which continued in 1973. The increase in the last two years has thus been about equal to that of the previous six years and has led to a rapid decrease in registered unemployment in the sector from 92,000 in February 1972 to less than 40,000 in November 1973.

Public utilities and the service sectors continued to expand in 1973 at about the same rate as in 1972.

The effects on employment of the latest boom have been felt rather late (March 1972) but ever since employment in industry started to increase steadily. The late effect of increasing demand on industrial employment reflected a tendency for capital intensive labour-saving investment in 1971-1972.[92] Employment in industry, which increased only by 1.5 per cent in both 1971 and 1972, may have increased in 1973 by about 3 per cent. The growth of production per person employed, which had increased by about 10 per cent, fell in 1973 to 6.5 per cent. Money wages in industry continued to increase rapidly in 1973. Payments per hour worked were, at the end of the second quarter of 1973, nearly 20 per cent above those for the same period of 1972, and the index of industrial salaries in the third quarter was about 15 per cent higher than that in the same period of 1972. Unit wage costs in industry had increased in 1972 by just over 4 per cent and in 1973 by 10 per cent.[93]

During the last quarter of 1973 the consumer price index was 14 per cent above the average of one year earlier. Food prices increased particularly rapidly in spite of successive measures of direct control in October 1972 and September 1973, later complemented by those of November 1973.[94]

While continuing to expand vigorously every major sector of demand experienced in 1973 a minor deceleration. Private and public consumption grew in 1973 by 6.5 per cent and 6.0 per cent respectively,[95] i.e. half a percentage point less than in 1972. The growth of gross capital formation has decreased slightly from 17.5 per cent in 1972 to 15.7 per cent in 1973. The growth and therefore the composition of the different sectors of capital formation probably changed substantially in 1973 since there seems to have been an acceleration of investment in construction and a deceleration in other forms of capital formation. Stocks probably increased less than in 1972 in spite of some speculative stock accumulation. About one-half of total real growth in the two years 1972-

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[92] See, United Nations, *Economic Survey of Europe in 1972*, New York 1973.

[93] Provisional estimates. *Source:* Ministerio de Hacienda, *El presupuesto y la economia española en 1974*, Madrid 1973.

[94] Tariffs on some products have been reduced to halt the price increase.

[95] It seems that real salaries increased in 1973 by less than in 1972. Money wages in agriculture increased about one percentage point less than in industry.

1973 took place in gross capital formation. The greater intensity of the 1972-1973 boom compared with that of 1968-1970 has been precisely due to the very strong investment growth of the last two years.

According to provisional estimates, GDP in *Turkey* increased in 1973 by less than 5 per cent. Unlike 1972, in which both the agricultural and the service sectors contributed to the slowing down in the rate of growth, the deceleration in 1973 was caused solely by a decline of agricultural production. All other output sectors experienced a higher rate of expansion than in 1972. The current balance improved and there was a current surplus of about 0.5 per cent of GNP. The price increases accelerated in 1973, largely due to a fall in food supplies following the bad harvest.

Agricultural output declined in 1973 by nearly 9 per cent. The decline, caused by bad weather, mainly affected crop production, while animal production and fishing rose slightly and forestry output increased by 10 per cent. All the main cereal crops, except rice, declined substantially and practically all vegetable crops, except hazelnuts, declined in 1973.

The output of the industrial sector as a whole (mining, manufacturing and public utilities) increased in real terms slightly faster than in the previous year. The acceleration only concerns value added in manufacturing, since both mining and public utilities expanded less than in the previous year. Within manufacturing, the most rapidly expanding branches were those producing investment goods, followed by those producing consumer goods. The output of intermediate products increased considerably more slowly and its growth was considerably behind the annual programme target.

Construction expanded more rapidly than in the previous year because of greater investments in non-residential construction and public works; real investment in dwellings does not seem to have increased at all. The services sector followed the accelerated pace of growth of the industrial sector in 1973.

The most expansive demand sector in Turkey in 1973 was the foreign sector followed by gross fixed capital formation and consumption. Both public and private investment accelerated considerably, particularly industrial investment in the energy, manufacturing and mining sectors. The growth of private consumption slowed down but public consumption grew more rapidly than in 1973.

According to provisional estimates, the implicit price deflator of GDP in 1973 accelerated in 1973 by about 1.5 per cent to nearly 16 per cent. The available cost-of-living indices point to a much more marked acceleration of price increases. Thus, while in the period December 1971 to September 1972, the cost-of-living index increased in Ankara and Istanbul respectively by 6.9 and 9.1 per cent, the price increase from December 1972 to September 1973 has been respectively of 14 and 13.8 per cent. For most towns covered by price statistics, food and clothing prices have risen particularly fast and well above the average price increase.

Information on the smaller countries of the area is very scanty, but according to recent information, GDP in *Cyprus* increased in current value in 1973 by nearly 10 per cent above 1972. This should correspond to a volume expansion of 1.5 to 2 per cent only, compared with 4.5 in 1972 and 12 per cent in 1971. There has been for the second consecutive year a decline in agricultural output and only a very moderate increase in industrial output.

The service sectors have been in general the most expansive. The rate of growth of both consumption and investment was below that for 1972. Both exports and imports of goods and services increased rapidly with a consequent widening of the trade and current balance deficits. Consumer prices in November 1973 were 11.6 per cent higher than in November 1972.

(iii) Trade and payments

South European economies participated in the considerable increase in world trade in 1973.

According to data based on foreign exchange payments in *Greece*, the current value of imports (c.i.f.) increased by 67 per cent in 1973 compared with 25 per cent in 1972. The unit value of imports rose by 18 per cent in the first eleven months of 1973 compared with 8 per cent in 1972. All major groups shared in the acceleration of imports, by far the highest rate of growth being payments for food, particularly cereals and meat.

The current dollar value of exports from Greece in 1973 increased (according to data relating to foreign exchange receipts) at a higher rate than in 1972 (47.3 per cent compared with 33.7 per cent). The volume of exports increased by 19.7 per cent in the first eleven months of 1973 compared with 27 per cent in 1972. The deceleration in the rate of growth of the volume of exports reflects mainly a decline of exports of tobacco which was by far the most important single export item in 1972. In all other major export groups a deceleration in the growth of exports was recorded (according to payments statistics) except for food, beverages, raw materials, minerals and ores. Exports of petroleum products and textiles continued to rise at an exceptionally fast rate, although lower than in 1972.

The trade deficit increased considerably in 1973, from $1.6 billion in 1972, to $2.8 billion. Net receipts from invisibles amounted to $1.6 billion in 1973 compared with $1.2 billion in 1972. This was mainly accounted for by a faster increase of receipts from transportation—reflecting both the higher rate of growth of the value of world trade and higher freight rates. Although the arrivals of tourists increased at a lower rate than in 1972, the country's gross receipts from travel increased at a faster rate in 1973 than in the previous year. The reduction of net emigration was reflected in a slower rate of growth of emigrant remittances. The net outcome was a widening of the current account deficit from $0.4 billion in 1972 to $1.2 billion in 1973. This was largely financed by a net inflow of capital, mainly private, and by unrecorded short-term credits.

Monthly trade data for *Portugal* have to be interpreted cautiously, since they are usually adjusted only at the end of the year. Trade has undergone important changes during the second half of the year, particularly in the case of imports. The growth of exports tended to accelerate throughout the year, the volume index being 22, 23 and 36 per cent above those for the year 1972 in the first, second and third quarter of 1973 respectively. The equivalent data for imports show a very sharp upturn in the second half of 1973, as declines of 24 and 10 per cent in the first and second quarter respectively were followed by an increase of 18 per cent in the third. The current value of imports declined in the first half of the year by 6.6 per cent and increased in the July-November period by 44 per cent. The trade deficit which was halved during the first half of 1973 (declining by some 190 million dollars) may, for 1973 as a whole, be greater than that for 1972.

The most important increases in exports were for textiles and clothing, machinery, metals, wood and cork products, and food (particularly port wine). Imports of food declined (particularly meat imports). The import boom of the second half of 1973 was centred on intermediate products for industry (natural textile fibres, metals, etc.).

There have been the two reductions of 20 per cent in the common external tariff of EEC imports from Portugal, the first on 1 April 1972 and the second on 1 January 1974. The reductions in certain cases imply an increase in the "realigned" tariffs of the new members of the Community into whose markets Portuguese manufactures previously entered duty-free. Portugal obtained certain concessions from the EEC for some agricultural products (wine, tomato concentrates) but several of its most dynamic exports are subject to a "sentitive products ceiling list". This list includes cork, textiles, and clothing, which covered 23 per cent of the value of Portugal's exports to the enlarged Community in 1972. Under the 1974 list, the "ceilings" for cork and its manufactures have been increased by 3 per cent and the ceiling for textiles by only 5 per cent. This might cause difficulties for Portugal's textile exports to the enlarged Community.

A new instrument for export promotion was created in January 1973 by the establishment of the so-called "contract for export development" between the Administration and exporting firms.[96] The first of these "contracts" (which benefited a furniture exporting firm) was signed in December 1973.

Portuguese data on tourism and emigrant remittances, as well as increasing foreign currency reserves, indicate that Metropolitan Portugal had again in 1973 a current balance-of-payments surplus of the order of 450 million US dollars, i.e. approximately 100 million US dollars more than in 1972. Tourism seems to have continued to expand at about the same rate as 1972 in spite of the revaluation of the escudo *vis-à-vis* the dollar and the pound, but the combined share of United States and United Kingdom nationals declined from 43 per cent of the total in 1972 to 38 per cent during the first eight months of 1973.

According to provisional data for the whole year, imports (c.i.f.) into *Spain* in current value in 1973 reached 561.5 billion pesetas, i.e. a 28 per cent increase on those for 1972 and exports (f.o.b.) 302.7 billion pesetas or 23 per cent more than in 1972.[97] These figures imply a c.i.f.-f.o.b. trade deficit of 4.4 billion dollars and an increase of nearly 1.5 billion dollars in the (c.i.f.-f.o.b.) trade deficit. According to an official estimate in December 1973, the f.o.b.-f.o.b. trade deficit for the whole year could increase by one billion dollars, but this increase should be offset by greater invisible earnings so that the current balance could close with a surplus of 500 million dollars, compared to a surplus of 660 million dollars in 1972. More recent data suggest that this official estimate might somewhat over-estimate the 1973 current surplus which, on a transactions basis, might be nearer to 450 million dollars. The net long-term capital inflow seems to have declined slightly in 1973 particularly on account of foreign direct investment in Spain.[98]

Particularly large increases in imports took place in processed food, wood and wood products, and machinery and transport aquipment. Exports of agricultural products and processed food, chemicals, iron and steel and road transport equipment increased very rapidly. Two important items which had expanded rapidly in recent years have however declined, namely footwear and ships.

The greatest relative increases in imports into Spain from traditionally important trading partners were those from the large industrial EEC countries, particularly France, the Federal Republic of Germany and the Netherlands. Imports from the United States also increased more than average while imports from the United Kingdom increased considerably below. The largest relative increases in Spanish exports were to the Netherlands, Italy and France.

According to recent estimates the current dollar value of imports into *Turkey* increased by nearly 38 per cent in 1973 and that of exports by 41 per cent. If these estimates prove correct, then there would have been a deterioration of the trade deficit of more than 200 million dollars. Trade data for nine months show that the current dollar value of imports increased by about 40 per cent and that of exports by nearly 54 per cent over the same period of 1972.

The greatest increase in imports by commodity group was in investment goods and by origin from the original six members of the EEC. Exports to the original six EEC countries also expanded considerably more than the average. Among export items having an important weight in the total, sizeable (current value) increases occurred in fruit and vegetables (21 per cent), industrial crops (32 per cent), processed food products (130 per cent), textile manufactures (82 per cent), hide and leather products (86 per cent), petrol products (98 per cent), and unwrought metal goods. The deterioration of the trade balance in 1973 was more than offset by a large increase in net invisible receipts of over 300 million dollars. Workers' remittances are estimated to increase by nearly 45 per cent to a total of 1,070 million dollars and—although still limited—net receipts from tourism increased by 59 per cent in 1973. The current balance is estimated to have moved into a surplus of some 70 million dollars as compared to a virtual equilibrium position in 1972. The net capital inflow increased in 1973 by 170 million dollars reflecting mostly an increase in official borrowing for development.

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[96] The main stimuli granted are special long-term credit facilities by the General Deposits, Credit and Provident Fund and/or the National Development Bank and direct technical assistance by the Fund for Export Development.

[97] In current dollars the increases are 44 per cent for imports and 39 per cent for exports.

[98] The decline was prior to the less liberal rules for foreign investment introduced in October 1973 and which abrogate the extremely permissive law of April 1963.

(iv) Policies and prospects

In *Greece* a series of important policy measures were taken in October. These included:

(*a*) The revaluation of the drachma in terms of the United States dollar by 11.1 per cent. This led to a change of the parity from 30 to 27 drachmas per United States dollar. It was the first change in the parity of the drachma in terms of the United States dollar since 1953.

(*b*) Selective restrictive measures giving priority to productive activities. It is expected that the rise of interest rates in the course of the year (May and July) would bring about a shift from money in circulation, which increased at a fast rate in the course of 1973, to time and saving deposits, which decelerated.

(*c*) The regulations relating to the control of prices were abolished.[99] In principle, prices are now allowed to be determined by market forces. This, however, is subject to some exceptions concerning minimum prices for certain agricultural products. For instance the minimum price per kilo guaranteed for wheat was raised from 3.10 to 4.30 drachmas.

The budget for 1974 allows for significant changes in the pattern of Government expenditure. Total expenditure is expected to decline according to both the original 1973 forecast and the revised lower estimate for that year. This reflects an expected decline of Government investment expenditure by 26-34 per cent over 1973 estimates. (Actual data for 1973 are not yet available.) The forecast budget deficit for 1974 is slightly above one-fourth of that forecast in the 1973 budget.

Although the measures listed above will bring about a deceleration of domestic demand, there is no reason at present to assume that it will cause a considerable reduction in the rate of output growth. It is conceivable that there may be a reduction in the growth of industrial production from its exceptionally high level of 1973; but this may easily be at least partly offset by some increase in agricultural production. A rate of growth of the Gross National Product, in volume, of 7 per cent could be achieved in 1974.

Despite the significant widening of the current account deficit in 1973—and the additional burden of higher prices for crude petroleum the balance of payments does not appear to be a short-term constraint to a fast rate of growth in Greece. The country's deficit on current account is considerable as a percentage of the country's GNP by international standards, but well within the external financing capacity of the country. It was financed by a net inflow of capital, and official monetary reserves at the end of September 1973 were more than double the level at the end of 1971.

As in previous years, the main problem of economic policy in *Portugal* in 1973 was to reconcile a high level of military expenditure[100] with the needs of structural reforms aimed at an acceleration of the rate of economic growth. The aggravation of inflationary pressures and the stress laid on the maintenance of an unchanged currency parity have put new constraints on the options of Portuguese policy makers.

In the field of structural policies, a number of measures were taken in 1973 aimed at a modernization of the industrial sector, not only by a streamlining of certain Government services (October 1973) but also by the creation of new institutions and legal instruments. Among the former are the creation (in March 1973) of the National Productivity Centre of the Portuguese Institute of Standardization, the Commission for Industrial Technology (October) and above all, the Technical Centres of Industrial Co-operation (October) which pool sectoral resources in a common effort of research and technological know-how.[101] Also important in the field of industrial policy is the creation of the Public Enterprise of Industrial Zones (October 1973) which will plan and carry out the necessary infrastructural work. In the legal field the most important measure was the law on the grouping of enterprises (June 1973) and the restructuring of the fish canning and preserving industry.

The likely economic impact of the 1974 budget for Portugal is particularly difficult to evaluate since budget results differ considerably from the published forecast and the budget results for 1973 are not yet known.[102] Comparing the forecasts for 1974 and 1973, both total receipts and expenditure increase by nearly 22 per cent.[103] Ordinary expenditure is put at 17 per cent on the forecast for 1973. The main increases concern the higher salaries of civil and military services and greater appropriations for the Ministry of Education. Extraordinary expenditure is 28 per cent above the 1973 forecast. The main increase is attributable to an increase in expenditure under the

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[99] Law 918/1971 on "price regulations" was abrogated.

[100] For 1972, the last year for which final budget results are known, military expenditure accounted for one-third of total budget expenditure or nearly 7 per cent of GNP (factor cost).

[101] For the moment three of these centres have been created, for metals in Lisbon, wood and cork in Porto and ceramics in Coimbra. 11,600 enterprises will benefit from these common services.

[102] For 1972, final expenditure (revised) was 19.7 per cent above the forecast mainly due to an increase in extraordinary expenditure. Total receipts were 14 per cent above the budget forecast, of which ordinary receipts were 26 per cent above and extraordinary receipts 28 per cent below forecast.

[103] Taking into account the rising level of inflation, this increase, in real terms, might not exceed that for 1973, i.e. 18 per cent.

Fourth Development Plan (1974-1979)[104] which increases by 48 per cent above that foreseen for 1973 (the last year programme of the Third Development Plan). Extraordinary military expenditure is estimated at 8.2 billion escudos, which is only 6.7 per cent above the forecast of 1973. Total extraordinary expenditure is expected to be financed 39 per cent by the surplus of ordinary receipts and by as much as 44 per cent by public debt issues.

Prospects for 1974 appear to be more strongly influenced in the short run by the consequences of the oil crisis than in other south European countries. In November 1973 Portugal introduced fuel rationing for a number of manufacturing branches to a quota of 10 per cent below consumption in 1972. This measure caused a slow-down of industrial activity which was already noticeable in some branches (textiles, for example) at the turn of 1973. Even if the supply situation improves rapidly and a greater use is made of Angolan oil [105] it seems inevitable that certain shortages will persist at the beginning of 1974.

The main aim of economic policy in *Spain* in 1973 has been to correct growing internal disequilibrium while maintaining growth near to the long-term potential of the economy. There was thus hardening of fiscal monetary and credit policies. The budget deficit reached a maximum towards the end of 1971 and later declined steadily to turn into a small surplus in 1973. The main target in the field of monetary policy—stated in July 1973—was to reduce the creation of liquidity[106] to an increase of 18 per cent over 1972 from a rate of expansion of more than 30 per cent during the first half of 1973. The first active step in this moderately restrictive monetary policy was an increase in interest rates in July. The gradual exhaustion of the liquidity margins of the banking system led, during the second half of the year, to a gradual but noticeable slow-down in the growth of total credit.

At the end of November the Government decided to introduce a set of measures covering prices, incomes and fiscal policies. These were aimed at reducing total demand pressure without causing a decline in investment.

(*a*) In the field of *incomes policy*, distributed dividends should not exceed in 1974 the average of 1972-1973 or 5 per cent of capital if there had been no distribution of dividends in the previous two years. The total salary increase in collective contracts renewable in 1974 should, in principle (unless absorbed by productivity increments), not exceed the increase in the cost of living from the data of the previous collective contract and no increase should be granted having an incidence of more than 5 per cent on producer prices.[107] These limits affecting salaries refer to the salary bill and therefore allow a certain adjustment in wage differentials.

(*b*) The price policy has been considerably streamlined from a sixfold legal breakdown to a mere two kinds of goods subject to price control.

(*c*) The Government has undertaken to hold public consumption expenditure during the first half of 1974 at the level foreseen in the 1974 budget.

(*d*) The policy of stimulating investment includes a reintroduction of *depreciation allowances* on investments in certain branches [108] until mid-1974 (following the same rules as in December 1971), fiscal stimuli to encourage *enterprise concentration*, and *asset revaluations* and a waiver of capital gains tax if stock exchange profits are reinvested.

(*e*) The decree also introduces a number of measures aimed at a more equitable distribution of the tax burden by introducing a capital gains' tax, reducing the income-tax of lower incomes and temporarily abolishing social security quotas paid by workers in the lowest income brackets.

The 1974 budget is somewhat less expansionary [109] than that for 1973. Total expenditure is to increase by 16 per cent above the initial 1973 forecast; current saving is to increase considerably and will amount to 29 per cent of current income. The budget's main novelty is the creation of a "cyclical action fund" of 10 billion pesetas (about one-quarter of one per cent of forecast GNP in 1974) [110] which will be used to increase investment expenditure if total demand should fall more than expected.

The main objectives of economic policy in Spain in 1974 are the maintenance of a rate of growth of output of 6.5 per cent— [111] and a deceleration of price increases to about 11 per cent. Given the still strong momentum of expansion and the determination of policy-makers to keep total demand expanding,[112] the first target seems attainable while the target for prices might be more difficult to achieve. In spite of the fall in order-books in November and December 1973, the stock of orders is still well above "normal" levels, and entrepreneurial expectations for investment in the first quarter of 1974 have only suffered a minor decline on the previous quarter, a fact which probably reflects a favourable response to the stimulating measures taken in November 1973. The present high price of crude oil should imply a current account deficit widening to perhaps as much as 1 per cent of GNP,[113] but the present high level of external reserves allows a great elasticity in policies even if a more reflationary policy would prove necessary in the second half of the year in order to meet the 1974 growth target.

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[104] The projects of the Fourth Development Plan were approved with only minor changes in December 1973. The target for GDP growth of 7.5 per cent does not differ from that (revised) of the Third Plan. Sectoral growth targets are 2 per cent for agriculture, 5 per cent for mining, 9.2 per cent for manufacturing, 10.8 per cent for public utilities, 8.5 per cent for construction and 6.8 per cent for services as a whole. Average emigration is put at 60,000 against 100,000 in the period 1960-1970. The participation of the private sector in projected investment reaches nearly 94 per cent. The main novelties of the Fourth Plan are the introduction of physical planning and the proposed creation of (mixed) Regional Development Enterprises.

[105] Portugal was only the fifth largest purchaser of Angolan crude oil during the first half of 1973. Portugal imported, in 1972, 5.7 million tons of mineral fuels; Angola produced, in the first half of 1973, 3.4 million tons.

[106] Money and quasi-money, including savings and time deposits.

[107] This restriction seems particularly severe for sectors such as mining in which wage costs represent roughly two-thirds of the gross value of production. If strictly applied it could entail a decline of real wages.

[108] The policy is this time more "selective".

[109] According to the Hansen-Snyder measure the total expansive effect is 1.2 per cent of GNP in 1973. According to the German "neutral budget" measurement, the effect is of 1.04 per cent of potential GNP in 1974.

[110] Even assuming that there would follow important multiplier effects, this item seems presently rather modest; if utilized, investment expenditure would increase by 20 per cent on the present estimate.

[111] The target seems to be maintained, in spite of the oil crisis.

[112] The decision to allow the peseta to float at the end of January 1974 was obviously prompted by the desire to stimulate manufactured exports.

According to the 1974 annual programme of development for *Turkey* (released at the end of January 1974), GNP in 1974 should increase in volume terms by 7.6 per cent over 1973. Total domestic expenditure is expected to increase by 8.5 per cent as the current balance would deteriorate by roughly 0.75 per cent of GNP.

According to the programme, the most expansive sector of demand should be the public sector with public gross capital formation increasing by over 37 per cent and public consumption by nearly 18 per cent. Private consumption is allotted a rather modest growth of 3.4 per cent. The strong expansion of the public sector is reflected in its consolidated account. Current receipts (in current value) should increase by 21 per cent and current expenditure by 18 per cent. The resulting current saving would thus increase by 25 per cent. This increase would not be sufficient to cover the programmed increase of 52 per cent in the current value of capital formation, so that a total public sector deficit would emerge equivalent (once net capital transfers are added) to roughly 2 per cent of forecast GNP in contrast to a minor surplus in 1973. The largest increases in the investment programme are those for manufacturing (32 per cent) transport (17 per cent) and housing (14 per cent). The foreign sector would be only moderately expansive as the current dollar value of exports is expected to increase by 12 per cent and the current invisible surplus by 8 per cent. Emigrants' remittances, which are the most important item in invisibles, are expected to increase by 7.5 per cent which, in view of recent restrictions introduced in the Federal Republic of Germany, might prove to be optimistic. However, the current level of reserves is such that even a much larger current deficit[114] than expected could be easily sustained in 1974.

(v) Yugoslavia

In 1973 output grew as in 1972 and remained below the long-run trend (table 4.2). This was due mainly to industry and construction while outputs of agriculture, transport and tourism grew at faster rates. The volume growth of domestic demand also slackened but inflation continued unabated. A rapid increase in exports of services ensured a rising surplus on the current account, which, together with a considerable inflow of foreign capital, almost doubled foreign currency reserves. The growth of output is expected to speed up in 1974. The objectives of current policies are to achieve a better balance in domestic demand, to ensure a slight increase in currency reserves and to reduce inflationary pressure.

THE GROWTH OF OUTPUT

The growth of industrial output was affected in recent years by a lower rate of growth of capacity and an insufficient rate of capacity utilization. Gross investment remained close to 30 per cent of GMP but was increasingly allocated to non-productive sectors (mainly for housing) and to capital intensive branches such as transport and metal-making. The rate of capacity utilization was affected by structural factors as well as the level of current demand. A persistent price differential has discouraged over a number of years investments in the sectors producing inputs and encouraged those producing finished manufactures. As a result, either imports of inputs were insufficient (in real terms they fell in 1972 by 3.3 per cent but rose by 16 per cent in 1973) or exports of manufactured products grew inadequately. Furthermore, the growth of domestic demand slackened in both 1972 and 1973. Credits needed to support sales of capital goods at home and abroad also remained inadequate. Finally, import liberalization was raised from 29 per cent of total imports in 1972 to some 52 per cent in 1973. The growth of the formerly dynamic sectors (see text-table below) was especially affected.

Ratio of branch growth rates to growth of total industrial output

Sector	*Annual average 1963-1970*	*1971*	*1972*	*1973*
Energy	1.05	1.30	0.75	1.00
Ferrous metallurgy	1.09	1.20	1.00	1.33
Non-ferrous metallurgy	0.69	0.20	1.38	2.17
Non-metallic minerals	1.28	1.20	0.13	0.83
Electro-engineering	1.41	1.40	1.13	1.00
Shipbuilding	1.40	0.10	3.13	0.00
Other metal using	1.02	0.80	0.38	1.50
Chemicals	2.32	1.70	1.63	1.50
Rubber	1.24	1.10	1.38	1.33
Construction materials	0.98	1.10	1.13	1.17
Footwear and leather	0.56	1.00	1.38	0.50
Textiles	0.62	0.70	1.25	1.00
Paper	1.23	0.90	1.25	1.17
Food processing	0.86	1.20	0.88	1.00

Sources: national statistics.

Agricultural output, which continues to fluctuate from year to year, recovered in 1973, especially for crops. This was due not only to weather conditions but also to instability in prices and market deficiencies. Construction continued to stagnate partly because of restrictive

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[113] Assuming a f.o.b. price of $9 per barrel for 1974 crude oil, the Spanish import bill for 1974 would increase (assuming imports of 42 million tons in 1974) by about 2.4 billion dollars. Present reserves are, however, almost three times as large.

[114] Assuming an increase of the price of oil for 1974 to about $9 per barrel, the import bill would be some 550 million dollars greater. This increase does not seem to be accounted for in the balance-of-payments forecast included in the 1974 programme.

TABLE 4.2

Yugoslavia: selected indicators

	Absolute amount 1971	*Annual compound increase 1960-1970*	*Annual percentage change*			
			1970	*1971*	*1972*	*1973*
Output, volume (billion dinars)						
GMP, volume	204.5	6.6	6.0	9.0	5.5	5.0-5.5
Industrial production	73.3	8.4	9.0	10.0	8.0	6.5
of which: Consumer goods	..	9.1	10.0	11.0	10.0	6.0
Capital goods	..	7.6	8.0	10.0	7.0	6.0
Intermediate goods	..	8.2	9.0	10.0	7.0	7.0
Industrial output per worker	..	5.3	5.0	5.0	3.0	3.0
Construction	18.3	4.1	9.0	4.0	0.0	0.0
Agricultural output	40.1	2.6 [a]	−4.0	7.0	−2.0	5.0
Foreign trade, value ($ million)						
Exports *f.o.b.*	1 814	11.6	13.9	8.1	23.0	28.0
Imports *c.i.f.*	3 253	13.2	34.7	13.2	−1.0	39.0
Gold and foreign exchange reserve	378	..	296	378	1 090	1 810
Expenditure, volume (billion dinars)						
Gross fixed investment	64.6	6.6	17.5	6.5	6.0	4.9
Personal consumption	110.5	6.6	8.5	9.0	5.5	4.2
Collective consumption	17.5	5.3	5.5	8.5	5.0	3.2
Final domestic demand	192.6	6.3	11.0	8.0	5.5	4.2
Stockbuilding and foreign balance	..	..	−4.0	1.5	0.5	..
Employment (thousands)						
Non-agricultural employment	3 792	3.0	4.3	5.1	4.0	3.0
Registered unemployed [b]	160	..	141 [b]	144 [b]	154 [b]	157 [b]
Vacancies [b]	27	..	25 [b]	27 [b]	29 [b]	53 [b]
Wages (dinars — current)						
Real earnings per head	..	6.6	6.0	5.0	3.0	−3.0
Nominal monthly income *(billion dinars)*	138.4	..	25.1	30.6	26.0	29.0
Personal disposable income *(billion dinars)*	127.6	..	25.0	29.0	24.0	28.0*
Household savings *(billion dinars)*	21.2	..	30.2	26.2	18	22.0
Prices						
Retail prices		10.5	10.0	15.0	16.0	19.0
Producers' prices of industrial products		5.0	9.0	15.0	11.0	13.0
Producers' prices of agricultural products		13.1	15.0	26.0	24.0	25.0

Sources: national statistics.

[a] Based on average for 1960-1961 and 1970-1971.

[b] End of year total *(in thousands)*.

policies and partly because a rising proportion of productive investment was spent on machinery. However, the activity of Yugoslav construction abroad, which is not counted as domestic output, increased rapidly. The growth of output of services speeded up in 1973, especially of catering and, more particularly, of tourism (nights spent by foreign tourists remained unchanged in 1972 but rose by 24 per cent in 1973).

Supplies of labour continued to be ample but since demand slackened, employment outside agriculture grew less fast in 1973 than in 1972. However, unemployment remained virtually unchanged because 60,000 persons emigrated abroad. Because of structural imbalances in the labour market the number of vacancies continued to increase. The decline in capacity utilization affected the growth of labour productivity.

Recent policies to accelerate the growth of output have included an upward adjustment of prices of energy materials, some metals and agricultural products (see text-table below) and the expansion of credit for sales of capital goods. Price adjustments have raised the capacity of these sectors to self-finance their investments and to attract capital from the banks. These measures had some effect in some sectors in 1973 but more is expected to come. There is also a plan for the development of agriculture which combines minimum guaranteed prices with investments on favourable terms, short-term credits, subsidies of inputs, guarantees of average profit rates, support for exports and some tax concessions. Agriculture should grow by 2.8 per cent per year (roughly 2.3 per cent in the last decade) in order to ensure supplies in the domestic market and to respond to export possibilities.

Changes in the producer prices of individual branches relative to the change in prices of industry as a whole

Sector	*1970*	*1971*	*1972*	*1973*
Electricity	0.67	1.76	1.09	1.30
Coal	1.36	2.33	1.36	1.20
Oil	0.00	2.92	1.36	1.10
Ferrous metallurgy	1.05	2.26	1.09	1.40
Non-ferrous metallurgy	1.67	0.70	0.68	1.20
Non-metallic minerals	0.83	0.72	1.09	0.90
Timber	2.09	0.57	0.09	0.70
Agriculture [a]	7.25	1.64	2.40	2.20

[a] Changes in agricultural producer prices relative to changes in the prices of inputs bought by agriculture; agricultural terms of trade grew less fast than the above because some subsidies were removed at the same time.

DEMAND PRESSURE

Table 4.2 indicates that the rate of growth of real demand continued to slacken in 1973. However, despite broader price control, the GMP price deflator rose by 15.2 per cent compared with 14.3 per cent in 1973.

All costs continued to increase. The prices of imported industrial materials increased by 14 per cent (2 per cent in 1972). Prices of industrial materials domestically produced, most of them subject to control, were raised. These were passed on since the prices of most final products are not controlled. Wage costs in all non-agricultural sectors combined increased by 14 per cent (15 per cent in 1972). Income policies were applied on a limited scale; they restricted wage increases in the first half of 1973 but permitted a fast increase in the second half.

Private consumption grew in value terms by some 25 per cent and in volume terms by roughly 4.2 per cent (5.5 per cent in 1972). There was an increase in population income of 29 per cent (26 per cent in 1972) and of 6 per cent in output of consumer goods (but supplies rose faster than this because the export surplus declined). The value of retail sales rose 23 per cent in value and 4 per cent in volume (7 per cent in 1972). Government budgets registered a surplus which was used for the repayment of foreign debts. However, this surplus was much more than offset by deficits in various funds used for short-term financing. The volume of investment rose by 4.9 per cent (in 1972 by 6 per cent) and its value by some 18 per cent (in 1972 by some 13 per cent). There was an increase in domestic output of capital goods of 6 per cent and the import surplus of these products rose by some 30 per cent. Investment in construction declined by some 7 per cent, but rose considerably in machinery.

In the course of the year restrictions reduced the internal demand and raised exports and stocks. Domestic demand (other than stocks) absorbed during January-May 56 per cent and during June-August 37 per cent of the increment in industrial output. The comparable proportions for exports were 42.5 and 48 per cent, and for the change in stocks 1.5 and 15 per cent respectively. Changes during the rest of the year were minor. With a faster increase of imports than exports (the reverse of 1972) the foreign sector, on the one hand, reduced the demand multiplier but, on the other hand, stimulated demand through the monetary effects of a rising balance-of-payments surplus. The money supply increased in 1973 (10 months) by some 30 per cent (43 per cent in 1972 as a whole), although an expansion of 14 per cent was planned at the beginning of the year. The addition to the money supply as a result of a rising surplus in the balance of payments rose rapidly (see text-table below); additions on account of National Bank credits (less increases in blocked accounts) were similar to those of 1972. Thus, credit policy was not compensatory to the extent envisaged in the plan, which required bank credits to be limited to some 24 billion dinars.

Under existing circumstances, however, credit policy needs to be expansionary in order to replenish the liquidity of enterprises, to meet rising needs for selective credit and to finance rising deficits in various development funds. Illiquidity of enterprises arises very often. It is caused, primarily, by excessive payments to wages and then by payments to the budgets which are fed among other things on wage taxes. The cash flow to enterprises is both hampered by extensive price freezes and inefficiencies in the banking and budgeting systems. Illiquidity and related informal credit giving among enterprises assumed large proportions in 1972 and threatens a general dampening of activity in 1973. The need for short-term selective credit has recently increased with the inauguration of policies to encourage agriculture, exports and tourism. Deficit financing (mostly taking the form of subsidies to agriculture, tourism, and invest-

Monetary expansion

(Billion dinars)

	Outstanding	*Changes*			*January-October*	
	31.12.1972	*1970*	*1971*	*1972*	*1972*	*1973*
Bank credits to clients	251.3	10.3	37.9	36.4	25.9	34.7
Blocked accounts	188.4		−27.2	−25.9	−18.6	−27.5
Foreign exchange transactions with non-residents	−2.4	−4.1	−5.2	7.6	5.9	10.6
Total supply	60.5	6.2	5.5	18.1	13.2	17.8

ment in transport) is largely operated by borrowing from the National Bank (this immobilizes fiscal policies for stabilization purposes). Monetary policies are rendered ineffective also by the fact that the money market and the capital market are not strictly separated and that the real rate of interest is negative. This makes borrowing cheap and permits the use of short-term funds for the acquisition of fixed assets.

THE BALANCE OF PAYMENTS

The value of exports and imports (at unchanged exchange rates) grew in 1973 by 28 and 39 per cent respectively and their volume by 14 and 21 per cent respectively. In 1972 exports grew in value by 23 per cent and in volume by 17 per cent, while imports declined by 1 per cent in value and 6 per cent in volume. Exports to and imports from countries with convertible currencies rose by 38 and 43 per cent respectively (31 and 1 per cent respectively in 1972). Exports and imports of intermediate products rose by 33 and 36 per cent respectively (25 and 0 per cent in 1972) and those of capital goods by 23 and 50 per cent respectively (18 and 0 per cent in 1972). These changes were affected, as noted above, by maladjustments of domestic supplies, lack of credit to support sales of capital goods, import liberalization, and relative changes in foreign and domestic demand. Moreover, import surcharges were reduced (from 6 per cent in 1972 to 2.3 per cent in 1973), as were the highest tariffs (the average rate fell from 13.9 per cent in 1972 to 12.6 per cent in 1973), and the domestic currency appreciated by roughly 6 per cent.

The merchandise trade deficit rose considerably in 1973 (in 1972 it fell on account of devaluations in the preceding year, the release of stocks and certain import surcharges). In contrast, the export surplus of services more than offset the trade deficit, thus increasing the surplus on current account. This, together with capital inflow, made nearly double currency reserves, which reached the equivalent of 5 months' imports. Competitive prices in tourism, attractive interest rates for remittances and short-term capital, as well as the favourable effects of expanding industrial co-operation and joint ventures on the inflow of long-term capital, all contributed to mounting this balance.

Balance of payments and currency reserves

(In million dollars)

	1970	*1971*	*1972*	*1973*
Exports	1 680	1 814	2 237	2 853
Imports	2 874	3 253	3 233	4 511
Trade deficit	1 194	−1 439	−996	−1 658
Net income from services, invisibles and workers' remittances	854	1 115	1 369	1 985
Deficit (–) or surplus in the current balance of payments	−340	−324	373	327
Net capital transactions . .	201	406	339	393
Reserve movements . . .	−139	82	712	720
Total reserves	296	378	1 090	1 810

PROSPECTS

The expectations for 1974 are indicated in the text-table below. The growth of output is planned to speed up in all major sectors other than agriculture. Expected improvements in the structure of output may lead to a better utilization of capacities and improvements in the credit system should improve the competitiveness of the capital goods sector. Agricultural output increased relatively fast in 1973 and more modest rates are now expected. Employment and productivity are both expected to rise in 1974.

Expected increase in 1974

(1973 = 100)

GMP	6
Industrial output	8
Construction	7
Non-agricultural employment . . .	3
Products in socialist sector	4.5
Agriculture	2.5–3.0
Exports of commodities and service	9–10
Imports of commodities and service .	16
Personal consumption	5.5
Collective consumption	5.0
Investments in fixed assets	7.5
Real wages	4.5

Investments should increase faster than total income in order to speed up the growth of new capacity. Private and collective consumption must therefore increase less fast than total income, and restrictive fiscal and monetary policies and improvement in the structure of output should permit a substantial reduction in inflationary pressure.

Foreign trade may grow less fast than in 1973 but imports, which will be further liberalized, will certainly expand faster than exports. The deficit in merchandise trade will increase further and on the current account there may be a considerable deficit; foreign currency reserves may therefore decrease. The increase in imports is needed for a better utilization of existing capacities. Petrol, the price of which has risen also, will require substantial foreign currency resources. Terms of trade are expected to deteriorate further. Facilities in terms of finance and duties will be given to imports of capital goods in order to speed up the modernization of industries.

CHAPTER 2

RECENT ECONOMIC DEVELOPMENTS IN EASTERN EUROPE AND THE SOVIET UNION

1. GENERAL DEVELOPMENTS

(i) Growth of national output

In eastern Europe and the Soviet Union, accelerated economic growth and a further expansion of foreign trade were reported as the main features of the economic performance in 1973. The combined net material product (national income produced) of the whole area rose significantly faster than in 1972—7.1 per cent as compared with 5 per cent (see table 1.1). After two years of relatively slow growth, mainly due to poor agricultural performance, Soviet economic growth in 1973 speeded up and exceeded the planned growth for that year. The 6.8 per cent rate of over-all growth scheduled for the 1971-1975 period was attained in the year. In the east European countries, the acceleration of growth progressed for the third consecutive year: the expansion was 7.9 per cent. However, slower growth was registered in the German Democratic Republic and Czechoslovakia. In all countries, except in the German Democratic Republic, expansion surpassed the planned rate.

The expansion of foreign trade was faster than in 1972. At constant prices, the growth rate was 8.3 per cent for exports and 12.7 per cent for imports. (For detailed analysis, see section 5 of this chapter.) This development increased the area's trade deficit and its external debt. In the Soviet Union the import surplus contributed to the elimination of effects of the 1972 decline in agriculture. In Poland, the increased foreign trade deficit allowed for high expansion rates of consumption and capital formation.

Economic developments in 1973 were broadly in line with the policy objectives set down in the annual plans. The general impression, judging by the degree of plan implementation, is that the policy measures were successful in carrying out the envisaged tasks. This was, first of all, a consequence of changes in the way that policy objectives were formulated and policy instruments selected. In all countries, emphasis was placed on the so-called complex, comprehensive or integrated policy. More and more "complex programmes" have been worked out, most of them of a long-term character. Moreover, co-operation among countries of the area improved particularly in the field of joint investment, energy, technical progress, etc.

The best example of such an orientation is provided by the programmes of *agricultural developments*. In the past, agriculture was often the main source of economic fluctuations and disturbances, which occasionally required longer periods of adjustment. In the mid-1960s, however, a new policy approach was adopted; it was further elaborated and incorporated in the five-year plans at the beginning of the 1970s. By the late 1960s and early 1970s, most east European countries obtained considerably larger harvests than in previous years. Variations in climatic conditions were largely responsible for the uneven performance of Soviet agriculture. However, it is worth noting that even in 1972, when weather conditions were at their worst, the results obtained in the eastern part of the Soviet Union were excellent.

In 1973, climatic conditions were reported as average or below average in all the countries of the area. Nevertheless, bumper crops were obtained in the Soviet Union and, for the third consecutive year, in Czechoslovakia, Hungary and Poland. In Romania, Bulgaria and the German Democratic Republic, grain output was below the all-time 1972 high, but amounted to the second or third highest output ever harvested. These developments cannot be regarded simply as the result of fortuitous factors and short-term policy measures. The measures undertaken in the course of 1973 were part of long-term policies based on the five-year plans and decisions embodied in special programmes, resolutions or decrees dealing with agricultural issues. The 1972 setback in Soviet agriculture did not have a significant impact on the long-term policy orientation. In fact, numerous recent decisions taken at the political, governmental and managerial levels were generally in line with the long-term development strategy in agriculture adopted at an earlier stage. The decisions refer to the improvement in the organizational set-up, planning and management, to supplies of additional material, human and financial resources, to land reclamation programmes and to the spreading of new methods of intensive soil cultivation, to the strengthening of economic criteria in business operations, to material incentives to workers and peasants, etc.

Among the issues associated with the development strategy, the central place belongs to *investment* and, in particular, to investment efficiency. The difficulties are numerous and they were for years repeatedly quoted in various official and semi-official discussions. Thus, for instance, reference has often been made to the excessive dispersion of investment activity and investment resources, to the delays in delivery of equipment and material inputs, to the inappropriate infrastructure, shortages

TABLE 1.1

Changes in growth of the net material product

(Annual percentage changes) [a]

Country and period	Net material product		Gross output					
			Agriculture		Industry		Construction	
	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual
Albania								
1966-1970	ca.8	9.2	ca.6.5	8.3	8.7	12.9	..	10 [d]
1971	12	..	25.8	ca.7	7.5	11.5	..	14.5 [d]
1972	13.4	..	..	..	9	9.5	..	..
1973	11 [b]	..	..	7*	10.4	9.4	..	19
1974	11		27		7.6		9	
1971-1973		..		..		10.3		..
1971-1975	9.2-9.9				10.0-10.7		..	..
Bulgaria								
1966-1970	8.5	8.7	5.4	4.7 [c]	11.2	10.9	..	12.1
1971	9	7	7	1.9	10	9	8 [d]	2.8
1972	8	8	6	4.8	7.7	8.3	..	9.3 [d]
1973	8	8.7	7.4	0.7	9.9	10.6	..	7 [d]
1974	ca.10		ca.5		11		..	
1971-1973		7.4		2.5		9.5		
1971-1975	7.7-8.5		3.2-3.7 [c]		9.2-9.9		..	
Czechoslovakia [e]								
1966-1970	4.1-4.4	6.9	2.8	3.5 [c]	..	6.8	..	7.9
1971	5.2	5.1	4.1	3.2	5.3	6.7	8.5	9.5
1972	5	5.9	4.6	3.9	5.3	6.8	7.4	9.8
1973	5.1	5.2	4	4.2	5.7	6.8	5	6.7
1974	5.2		3.8		5.8		7.5	
1971-1973		5.4		3.8		6.5		8.7
1971-1975	5.1		2.7		6		6.7	
German Democratic Republic [f]								
1966-1970	5.4	5.2	2.5-2.8	1.9 [c]	6.5-7	6.5	7	8.3
1971	4.5	4.5	3.2	0.4	5.6	5.6	3.6	5.6
1972	4.6	5.7	4.8	10.7	5.5	6.3	3.5	2.8
1973	5.7 [k]	5.5	4.9 [g]	1	6.5	6.8	7.6	6.1
1974	5.4		6.8 [g]		6.7		6.1	..
1971-1973		5.2		3.9		6.2		4.8
1971-1975	4.7-5.1		2.4 [c]		6		5	
Hungary								
1966-1970	3.5-3.9	6.8	2.5-2.8 [c]	2.8 [c]	5.7-6.3	6.2	4.4-5.1	10.7
1971	7	6.5	8	9.2	6	7	7-8	7
1972	5-6	5.1	2-3	2.7	5-6	5	3-4	2
1973	4-5	6.5-7	1-2	5	5.5-6	7.2	4	3
1974	5		2-2.5		5.5-6		4	
1971-1973		6.1		5.6		6.4		4
1971-1975	5.5-6		2.8-3 [c]		5.7-6		7-8	
Poland								
1966-1970	6	6	2.4	2.9 [c]	7.6	8.4	..	8.6
1971	5.9	8.1	2.4	3.6	6.8	8.3	7.2	6.2
1972	6.1	10.1	4.6	8.4	7	10.7	7.3	16.4
1973	7.9	ca.10	2.1	7.8	9.7	11.6	13.3 [h]	20.8 [h]
1974	9.5		4.3		11.1 [f]		10.6	
1971-1973		9.4		6.5		10.2		..
1971-1975	7		3.3-3.9		8.5		..	

TABLE 1.1 *(continued)*

Country and period	*Net material product*		*Gross output*					
			Agriculture		*Industry*		*Construction*	
	Plan	*Actual*	*Plan*	*Actual*	*Plan*	*Actual*	*Plan*	*Actual*
Romania								
1966-1970	7	7.7	4.5-5.7	4.2 [c]	10.6-11.6	11.8	. .	11.4
1971	ca.13	12.8	. .	19	9	11.7	. .	9.3
1972	11-12	10	21	9.2	11	11.7	. .	7.5
1973	9.8	10.8	. .	0.2	14.7	14.7	. .	7.3
1974	14.6		21.5		16.7		. .	
1971-1973		11.2		9.4		12.7		8
1971-1975	11-12		6.3-8.3 [c]		11-12		. .	
Eastern Europe [i]								
1966-1970	5.6-5.8	6.5			7.5	8		
1971	6.8	7.2			6.8	7.7		
1972	6.5	7.7			6.7	8.4		
1973	6.9	7.9			8.6	9.6		
1974	8.4				9.5			
1971-1973		7.6				8.6		
1971-1975	6.7-6.9				7.7-7.9			
Soviet Union								
1966-1970	6.6-7.1	7.7	ca.4.5	3.9 [c]	8.1-8.5	8.5	. .	7.4 [d]
1971	6.1 [j]	5.6	3.3	1.1	6.9	7.7	7	8.8 [d]
1972	6.2 [j]	3.9	ca.4.5	—4.1	6.9	6.5	. .	6.8 [d]
1973	6 [j]	6.8 [j]	12.6	14	5.8	7.4	. .	. .
1974	6.5 [j]		6.4 [l]		6.8			
1971-1973		5.3 [j]		3.3		7.2		. .
1971-1975	6.8 [j]		3.9 [c]		8		ca.7.5	
Byelorussian SSR								
1966-1970	9.8	9.1	. .	5.7 [c]	11.1	12.4	. .	13.1
1971	8	9	. .	2.2	9	11.8	. .	11
1972	7.6	8	. .	1.6	8.3	9.7	. .	9
1973	7	8	. .	8	7.9	10.2	. .	. .
1974	8.3		. .		8		. .	
1971-1973		8.3	. .	3.9		10.6		. .
1971-1975	8		ca.8.5 [c]		9.6		. .	
Ukrainian SSR								
1966-1970	7	6.8	. .	3.2 [c]	8.1	8.3	. .	6.5
1971	6	6	7	6.1	5.9	6.9	. .	9
1972	5.6	3.5	. .	—3.7	5.6	6.3	4	8
1973	6	9	7.5	13.2	5.4	7.5	. .	. .
1974	6.3		3.6 [l]		7		. .	
1971-1973		6.2		4.5		7		. .
1971-1975	6.6		3.6 [c]		7.4		. .	
Soviet Union and Eastern Europe [i]								
1966-1970	6.3-6.7	7.4			7.9-8.2	8.4		
1971	6.3	6.1			7	7.7		
1972	6.3	5			6.8	7		
1973	[illegible]	7.1			6.6	8		
1974	7.1				7.6			
1971-1973		6.1				7.6		
1971-1975	7				7.9			

Sources: national statistics, plans and plan-fulfilment reports.

[a] Changes within five-year periods are yearly averages.

[b] Related to the 1972 plan target.

[c] Annual percentage change of five-year average over the previous five-year average.

[d] Construction and assembly works.

[e] Industry data refer to centrally planned industry. Total industry: 6.7 per cent in 1971; 6.8 per cent in 1972 and 6.8 per cent in 1973.

[f] Industry data refer to commodity production; yearly averages refer to total industry production.

[g] Including food-processing industry.

[h] Construction enterprises in socialist sector.

[i] Excluding Albania.

[j] Domestically distributed net material product.

[k] Devised figure is 5.1.

[l] Preliminary figure.

TABLE 1.2

Changes in domestically distributed net material product by major components

(Annual percentage changes) [a]

	Net material product		*Consumption*			*Net capital formation*		
							Net fixed capital formation	*Changes in stocks*
Country and period	*Produced*	*Distributed*	*Total*	*Personal*	*Social*	*Total*		
Bulgaria [b]								
1966-1970	8.7	8.3	7.1	6.7	10.6	10.8	13.6	..
1971	7	1.6	7.4	6.3	30.2	−11.5	..	..
1972	8	9.8	6.4	6	14.3	21	..	..
Plan 1973	8	..	..	..	..	..	..	..
1973	8.7	..	7	ca.8	..	3	13.7	..
Plan 1974	ca.10	..	..	..	..	..	3.5	..
Plan 1971-1975	7.7-8.5	..	..	..	..	..	..	..
Czechoslovakia								
1966-1970	6.9	6.9	5.5	5.4	5.8	13.7	5.7	..
1971	5.1	4.4	6.2	5	10	−1.5	7.3	−18.8
1972	5.9	5.9	6.1	4.8	9.8	5.3	8.3	−2.3
Plan 1973	5.1	..	..	5.5	5.3	..	..	..
1973	5.2	..	..	5.8	..	..	..	..
Plan 1974	5.2	..	..	5.5	..	..	..	..
Plan 1971-1975	5.1	..	..	5.1	..	..	..	..
German Democratic Republic								
1966-1970	5.2	5.8	4.7	4.4	7.4	9.9	11.8	1.7
1971	4.5	3.2	4.9	4.2	10.1	−2	−3.5	6
1972	5.7	5.3	6.3	5.9	8.7	2.1	2.8	−1.5
Plan 1973	5.7 [f]	..	..	..	..	..	..	..
1973	5.5	..	6.3	6.2	7.1	6.6	9.2	−7.4
Plan 1974	5.4	..	..	..	..	..	..	..
Plan 1971-1975	4.7-5.1	..	3.9-4.2	..	..	..	5.1-5.4	..
Hungary [b]								
1966-1970	6.8	7.4	6.4	6	8.3	11.6	14.5	2.8
1971	6.5	11.2	6.1	5.6	10.2	27	2.4	126.2
1972	5.1	−3.8	3.1	3.5	1.9	−21.7	7.6	−75.3
Plan 1973	4-5	4.5*	ca.5	..	..	ca.2	..	..
1973	6.5-7	3.1	4.4	4.6	..	−1.7	−2.2	2.7
Plan 1974	5	5-6	5.2-5.6	..	..	7.8	..	..
Plan 1971-1975	5.5-6	5.5-6	5.6*	...	..	5.6 [c]	..	..
Poland								
1966-1970	6	5.8	5.5	5	8.5	6.5	9.1	0.0
1971	8.1	9.9	7.7	7	11.6	15.5	10.6	33.1
1972	10.1	12.7	9.1	8.8	10.9	21.3	27.2	3.7
Plan 1973	7.9	9.7	9.1	9.2	8.5	11.1	13.6	..
1973	ca.10	..	..	..	..	..	..	..
Plan 1974	9.5	9.3	8.5	8.7	7.6	9.3	12.6	..
Plan 1971-1975	7	..	..	..	..	..	..	..

TABLE 1.2 *(continued)*

Changes in domestically distributed net material product by major components

(Annual percentage changes) [a]

Country and period	Net material product: Produced	Net material product: Distributed	Consumption: Total	Consumption: Personal	Consumption: Social	Net capital formation: Total	Net capital formation: Net fixed capital formation	Net capital formation: Changes in stocks
Soviet Union [d]								
1966-1970	7.7	8.5	7.5	7.3	8.7	10.9	12.9	8.2
1971	5.6	5.1	5.8	5.6	7.7	3.4	5.1	1
1972	3.9	3.4	5.3	4.9	8.3	−1.3	3.4	−8.7
Plan 1973		6	..	..	..	..	..	..
1973		6.8	..	..	..	..	..	..
Plan 1974		6.5	..	..	..	..	..	..
Plan 1971-1975		6.8 [e]	..	..	..	..	..	..

Sources: national statistics, plans and plan-fulfilment reports.

[a] Changes within five-year periods are yearly averages.

[b] Data for personal consumption refer to consumption of the population, i.e. they include personal consumption of material goods and the consumption of material goods by institutions providing cultural services and social welfare services to the public. Data for social consumption refer only to the consumption of material goods by institutions meeting the collective needs of the community as a whole; such as general government, science, financial, insurance and credit institutions, and other institutions of the non-material sphere. See *Studies in Methods. Basic Principles of the System of Balances of the National Economy*, United Nations, 1971, Series F, No. 17, p. 55.

[c] Annual percentage change within five years over the previous five years.

[d] At current prices.

[e] At constant 1965 prices.

[f] Revised figure 5.1.

of some materials and labour, etc. The very high investment activity in the first year of the new five-year plans (1971) in most countries and an increasing share of decentralized resources in investment financing (enterprise funds and bank credits) added to the difficulties. Construction periods were prolonged, the share of uncompleted projects increased, and completed capacities could not be put into operation or brought to full utilization because of non-co-ordinated construction of some plants supplying complementary inputs.

In all countries, investment policies aimed at reducing waste and increasing efficiency. Within the general economic policy of stabilization and consolidation, investment policy was a cornerstone. Restrictive and selective investment policies were introduced. Priorities were given to the projects which would be finished in the shortest period of time and to projects removing bottlenecks.

The shifts in the distribution pattern were mainly due to a change in growth strategy.[1] Changes in the rates of investment expansion were larger than the changes in consumption increases. In all countries, except the Soviet Union, investment expansion was stepped up. In Czechoslovakia and Poland, and probably in Romania, the rise of investment expansion was in line with developments in previous years. In Bulgaria, the German Democratic Republic and Hungary, the investment expansion in 1973 appeared as a new policy orientation towards speeding-up over-all growth in the coming period. In the Soviet Union, an accelerated expansion of investment is also planned for 1974.

Special attention was given to the reconstruction and modernization of obsolete capacities, particularly in Czechoslovakia and the German Democratic Republic. In Hungary, a special programme for modernizing obsolete equipment and technology in some large-scale enterprises, primarily in engineering, was undertaken, for which additional budgetary resources were provided. In the Soviet Union, special investment programmes were initiated (for instance, in coal and light industries).[2] In Czechoslovakia, in addition to short-term policy measures, a decision was taken to start the re-examination of the efficiency of the whole investment complex and of its component parts. In Bulgaria, the BCP Central Committee secretariat and the Council of Ministers discussed a report on the establishment of a national construction complex, February 1974.[3]

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[1] For detailed figures see table 1.2. Statistical data referring to the distribution pattern in 1973 are not available at the moment of writing this SURVEY. The distribution pattern may be illustrated by the percentage shares of consumption in national income (national income = 100) in 1971 and 1972.

	In percentages 1971	*In percentages* 1972
Bulgaria	73.2	75.1
Czechoslovakia	74.6	74.8
German Democratic Republic	77.2	78.1
Hungary	72.1	78.0 [a]
Poland	70.6	68.3
Soviet Union	71.1	72.3

Source: national statistics.

[a] In 1973 the share was 78.3 per cent.

[2] The policy of concentrating capital investment in the Ukrainian SSR, for instance, increased in the past year the financial resources allocated on the average per construction project by more than 26 per cent in relation to the 1971 figure.

[3] The national construction complex is to be a system of scientific, socio-economic and other organizations implementing the uniform State policy in the field of urbanization, sectoral and regional planning and construction. Its concern is also "the state and development of technical progress, complex automation and mechanization, technical standards and quality of construction . . .".

No major difficulties in the field of *energy* were reported in the area. The available resources seem large enough to meet the present energy needs in all countries and probably the needs in the foreseeable future. Geographically, the resources are unevenly distributed, being particularly concentrated in the Soviet Union (all types of resources) and in Poland (coal), where they exceed domestic needs. During the past year the bulk of east European countries' imports of oil and natural gas came from the Soviet Union, whereas imports of coal were distributed roughly equally between supplies from the Soviet Union and from Poland. The remaining oil imports came from the Arab countries and Iran. The biggest importer from the rest of the world was the Soviet Union (almost half of the area's imported oil and total imports of gas—see table 5.4). However, an austerity policy in fuel and power consumption was proclaimed in most countries. The fuel restrictions were not drastic and aimed primarily at reducing waste. Difficulties were more pronounced in the supply of electric energy than of oil. It was reported that electric power shortages occurred in Czechoslovakia, the German Democratic Republic, Hungary and Bulgaria, but that they were alleviated by imported power largely from other countries of the area.

Co-operation in the field of energy among all the countries of the area has been a constant concern of a permanent CMEA commission. The region is interconnected by a highly developed infrastructure for energy transmission—joint electric grid, oil and gas pipelines. Apart from the co-ordination of national balances for traditional energy resources, the joint investment programme for construction of atomic power plants was worked out during the last year and a specialized CMEA economic association was established in order to promote and co-ordinate implementation of the joint programme.

(ii) Changes in employment and labour productivity

Increased emphasis on intensive growth brought the employment and labour productivity problems to the forefront of economic planning and management. In all countries of the area, labour is tending to become more and more scarce in relation to growth requirements. In some countries, labour shortages have already become acute, in others the supply of labour is tending to decline at an accelerated pace. The available forecasts of additional supply of the population of working age show that after 1980 no country in the area can count on an annual rate of over 0.7 per cent.[4]

On the other hand, in all countries, the relative importance of labour productivity as a growth factor already exceeds that of additional labour. In a number of countries, labour productivity contributed more than 80 per cent to over-all growth. Due to stagnant or declining employment in some industrial branches and in agriculture, the contribution of this factor has reached or exceeded 100 per cent. In Hungary, Romania, Bulgaria and Poland, special attention was paid to demographic policies. Even in Poland, the Prime Minister stated: "A period of demographic depression is approaching, in which the increase in the inflow of workers will be much lower than hitherto."[5] In Bulgaria and Hungary, increasing financial resources were allocated as allowances to families with children. Employment policies were concentrated largely on the latent labour reserves among the female population and even among pensioners; the latter being the case even in countries where labour shortages are not yet particularly acute and occur only in some sectors or regions (Poland and the Soviet Union).

In countries with a low rate of demographic increase and with a relatively small agricultural labour force, the small increase of industrial employment and employment in general have become a factor limiting growth. In the German Democratic Republic, the rate of expansion of industrial employment remained very low or 0.1 per cent in 1972. The prospects for additional labour supply in Czechoslovakia are reported to indicate the halving of the present increase. In 1973 the growth rate of industrial employment in this country was 0.7 per cent. In Hungary, after two successive years of decline, industrial employment, owing to the 1973 recovery, expanded slightly so that the 1971-1973 average went up to 0.1 per cent. In the Soviet Union, the yearly average rate of increase in industrial employment for the period 1966-1970 amounted to 2.8 per cent; in 1971-1973 it slowed down to 1.2 per cent. In Bulgaria, a similar trend in industrial employment brought the yearly average rate of 4 per cent in 1966-1970 down to 2.4 per cent in 1973. It was reported that in 1973, labour shortages in construction affected the scheduled pace of completion of some projects. Poland and Romania still have large reserves for additional employment (for more details see section 2 (ii) "Industry" and table 2.11).

In a few countries, the labour supply situation was further tightened by the extension of a shorter working week to additional regions and branches. Faced with increasing problems, some countries, like Poland, introduced restrictive policies with regard to the recruitment of new labour. In Hungary, material incentives

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[4] The urgent character of developments in the field of labour has led to co-ordinated action in the CMEA. The Symposium held in November 1972 in Moscow dealt with labour issues in the member countries. See *Voprosy Ekonomiki*, 1973, No. 2. In the papers submitted by L. Degtyar' (*Voprosy Ekonomiki*, 1974, No. 1) the following forecast was set out:

Yearly average percentage changes in labour supply based on the increase of the population of working ages

	1971-1975	*1976-1980*	*1981-1986*	*1986-1990*
Bulgaria	0.7	0.3	—0.2	—0.1
Czechoslovakia .	0.8	0.5	0.15	0.4
Hungary . . .	0.6	0.05	—0.2	. .
Poland	1.8	1.4	0.65	0.35
Romania. . . .	0.8	1.1	0.7	0.7

During the 1970s, the slow-down in the supply of young members of the labour force will be even more pronounced (see the SURVEY for 1968, chapter III, "Determinants of labour supply in Europe, 1950-1980").

[5] *Polish Economic Survey*, 1974, No. 1 (286).

were provided in 1972 for limiting the expansion of employment. In the Soviet Union a large-scale campaign was launched to stimulate labour-saving methods. Some of these (e.g. the Shchekino scheme) are scheduled to be introduced in all enterprises by the end of the current five-year plan. The experiences gained through some other schemes of organizing brigade work in construction (Zlobin's method) and similar experiments in railroad transport were fully approved by the highest political and governmental bodies. They were often referred to in the campaign conducted by political organizations, the press and other mass-media. Finally, a revision of the labour code was started last year in Poland and Bulgaria.

(iii) Technical progress

In addition to policy measures for improvements in the demographic situation and employment opportunities, others, even more important, were undertaken to stimulate labour productivity through the promotion of technical progress.[6] In all countries, technical policies are seeking to improve the organization of research in institutes and laboratories, to speed up industrial application and dissemination of new, advanced techniques and to facilitate the transfer of progressive techniques adopted abroad.

In 1973 in the German Democratic Republic, Bulgaria and the Soviet Union, a number of resolutions were adopted with a view to accelerating technical progress. The planning of technical development became an obligatory part of annual and medium-term plans. Mechanization and technical re-equipment of light industry and coal mining in the Soviet Union, long-term programmes of technological development in agriculture in Bulgaria (November 1973) are examples of such activities. The organization of technical co-operation and of joint research programmes within the CMEA institutional framework gained in scope, indicating the increasing importance which the governments attach to this particular field.[7] In 1973, international co-operation in scientific research and technical development was extended beyond the CMEA area, linking the east European countries and the Soviet Union with western Europe, the United States and Japan. Technical co-operation in the field of energy, agriculture and engineering reached a point at which it may be regarded as one of the main factors in the promotion of trade and economic relations between east and west.

The new approach, aiming at intensifying and speeding up the introduction of modern and advanced technology, had a strong impact on investment policy and in particular on the high priority given to the industries producing new equipment and instruments needed for technical reconstruction. In a short period of time, new specialized branches of engineering were developed at spectacular rates. These developments allowed for the installation of about 11,500 automatic and mechanized production lines in Soviet factories in 1973. The development of control instruments and computers allowed the application of new automated management methods in technological processes (ASUTP) and in the planning and management at the level of enterprises (ASUP) and entire branches (OASU). As an example, such developments provided the ground for multilateral co-operation within the CMEA in organizing the unified system of electronic data processing.[8]

In November 1973 a new resolution of the CPSU Central Committee and the USSR Council of Ministers was adopted aiming at promoting technical progress and innovations. It is also planned to establish an all-Union Centre for Patent Services.[9]

The need to strengthen ties between research and production led to the organization of research and production associations. In this regard, developments in the Soviet Union tend to confirm that the time-lag between the development of an innovation and its mass production was considerably reduced. Similar developments can be observed in the recent moves towards the consolidation of large-scale enterprises in Poland and Bulgaria. The new forms of research and production associations tend to cover all stages of the production cycle. In Bulgaria, close organizational links between the Academy of Sciences and the University of Sofia have been envisaged in order to increase the efficiency of scientific research.

The application of advanced technology requires changes not only in management but also in manpower skill. The attention of policy makers was focused on the re-examination of the educational system in general. In July 1973, the Supreme Soviet of the USSR adopted a new law on improving public education. Educational problems were also discussed at the highest political level in Bulgaria and Czechoslovakia. Furthermore, the economic education of workers was introduced in the Soviet Union last year. More than 5 million workers and managers participated in thousands of courses providing basic knowledge in different aspects of modern management.

(iv) Price policies

Among the difficulties associated with the price policies and inflationary pressures the exchange rate problems deserve special attention. Exchange rate adjustments took place in relation to the major currencies outside the area. The Soviet Union State Bank published every month the list of official exchange rates, and adjustments were made according to the developments in western Europe and the United States. Other countries, such as Hungary, Romania and Czechoslovakia also had to adjust their official exchange rates to foreign currency fluctuations. The modification in exchange rates did not bear in any way on the domestic money and credit system. As for the impact of inflated prices of imported and exported goods, the policy measures undertaken proved rather efficient in coping with the adverse effects. Price stability was maintained in all countries, and retail prices remained stable. In Hungary, the increase of the retail price level in 1973 (3.5 per cent) remained within the planned rate and was in line with the long-term price policy programme aiming at reducing discrepancies between consumer prices and production costs. (Compensation for increased cost of living was granted to consumers.) Nevertheless, it should be stressed that the intensification of east-west trade, the increase of foreign trade deficits in some countries and the increasing importance of industrial and technical co-operation are likely to require measures and additional resources for the maintenance of economic stability.

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[6] Technical progress in a broad sense incorporates changes in the use of material and human factors leading to increased efficiency, such as new types of machines and equipment, innovation in technology and know-how, organization of scientific research and application of the results in production. Moreover, it can refer to methods of improving management and labour skills.

[7] For instance, in agricultural technology several joint programmes were organized, such as the elaboration of programmes for the optimal use of fertilizers for various crops, international verification and improvement of several hundred new strains of crops, preparatory work on the elaboration of the international machinery system for agricultural mechanization. For more detailed analysis see section 5 on "Foreign trade" and also *Economic Bulletin for Europe*, vol. 25, section 3.

[8] The CMEA system consists of six models of third generation computers.

[9] It was reported that, in 1973 alone, more than 50,000 innovations were entered in the Soviet Union State Register and 126,000 in the first three years of the current five-year period.

Price stability is a policy objective common to all countries of the area. First of all, it refers to the stability of retail prices. Retail price indices remained stable or declined slightly (see table 4.2), except in Hungary and Romania. The price increase in Hungary was planned and the authorities kept the rise in line with the intentions of the plan. The cumulative effect of the annual price increases in Hungary for 1971-1973 amounted to 8.6 per cent. In Romania, the 1973 price adjustments of some consumer goods (meat, meat products, alcohol) in the summer of 1973 moved the retail price index up by 1 per cent.

By and large, producer prices for industrial products remained stable. Some price adjustments took place, the most significant of which occurred in the Soviet Union. From 1 January 1973, producer prices in engineering were reduced on average by 12 per cent, whereas prices for some items in light and food processing industries were adjusted upwards. As from 1 January 1974, long distance railway fares were reduced in order to stimulate the exploitation of natural resources in remote eastern regions, but short distance rates were increased, thus allowing the general level to remain unchanged. In the German Democratic Republic a new price system of industrial products came into force at the beginning of last year.

In the field of agricultural products, meat and milk procurement prices were increased in several countries. In Romania and Hungary, retail prices were changed accordingly; compensation for increased cost of living was granted to consumers.

In several countries the distortions in relative price structure were discussed. In Czechoslovakia, for instance, where prices were frozen at the 1 January 1970 level, the preparatory work for comprehensive reforms of industrial prices is under way. The general price level in this country is to be reduced, and the average profitability in industry and construction was set at 7.5 and 4.65 per cent respectively. The new prices are scheduled to come into force at the beginning of 1976.

Price control was tightened up and new regulations were issued in several countries (Hungary and Poland, for instance). Violations in pricing so-called new products were reported, but they were of minor importance.[10] In Czechoslovakia, free prices in public catering and some services to the population were replaced by the "uniform retail prices". In Hungary the problem of "dishonest" profits drew significant attention; new regulations referring to cost accounting in pricing industrial products outside the controlled price categories were laid down.[11]

Budget subsidies were the most important instrument in implementing price stabilization policies. It may be noted that the amount of subsidies has been increasing from one year to another. In the German Democratic Republic, State subsidies for maintaining stable retail prices for basic consumer goods increased from 8.5 billion marks in 1971 to 10.7 billion in 1973, thus reaching about 8 per cent of the national income. Similar developments could be observed in Hungary, where subsidies to counteract the adverse effects of inflated prices for imported goods, mainly basic materials, amounted to 5.3 billion forints. For 1974 it is envisaged that the figure will double. It was reported that a subsidy of this size would be sufficient to keep price increases within the planned 2 per cent, whereas without the subsidy retail prices would increase by at least 6 to 7 per cent next year. In Poland a three-year price freeze for basic consumer goods produced was associated with subsidies of a similar order of magnitude. The freeze will be extended in 1974, but the subsidies are expected to reach such a high level that in the future a "flexible" price policy should be applied.

In 1973 two factors contributed to strains in the field of prices. First, it seems that the inflated prices of imported goods have not been matched by price increases on the export side. Direct statistical evidence of the deterioration of terms of trade is available only for Hungary (see section 5), but similar developments may have occurred in other countries also. The levy of taxes on export prices could not provide sufficient resources for increased subsidies intended to compensate the inflated import prices so that the price gap could not be closed through export taxes alone. Adjustment in exchange rates, and changes in custom tariffs were made use of, but budget subsidies remained the last resort; their direct impact on the distribution of domestically available resources has been increased.

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[10] The administrative work required for price controls can be illustrated by the example of pricing new products. The Chairman of the USSR State Committee for Prices declared last December that price control offices received 171,000 applications for pricing of new products in 1971 and 215,000 in 1972. The new tariffs for consumer services were not included in those figures. Cf. *Planovoe Khozyaistvo*, 1974, No. 2.

[11] *Népszabadság*, 19 April 1973 and 24 June 1973.

The expansion of east-west trade and economic relations make it more difficult for east European countries and the Soviet Union to remain unaffected by developments in western markets and currency systems. Hitherto, subsidies combined with foreign exchange practices have been successful in protecting the domestic price level against direct effects. But these policies tend to widen the differences between the two criteria of efficiency based on domestic and world market prices respectively. This runs counter to the policies, pursued in the recent past, aimed at reducing disparities between domestic and foreign prices.

Secondly, under the conditions of a steady rise in wages and other personal incomes, and stable retail prices, market disequilibria may arise, especially for goods with high income elasticities (meat, meat products and some consumer durables). Resort has often been made to imports of such products, which increased considerably in a number of countries from 1971 to 1973, and to increasing domestic supplies.[12] In the long run emphasis is on more flexible price policies including rents. In this respect the housing situation provides an illustrative example, rents being low and not having been changed for years (in the Soviet Union since 1926). In spite of intensive construction in this sector, the adjustment process in some countries is foreseen to last fifteen years, starting in 1973 (see section 4, "Consumers' incomes and supplies").

(v) Changes in organizational structure, planning and management

Improvement in the efficiency of planning and management at all levels continued to be a permanent concern of governments. In some countries new governmental bodies were set up in order to improve organizational conditions of economic planning, like the State Planning Committee in Hungary and the Commission for the Modernization of the Economy and State in Poland. In Romania, as a follow-up of the Law on planned economy and social development, approved at the end of 1972, three new central governmental bodies were established in May 1973: the Supreme Council of Economic and Social Development, the Council of Economic and Social Organization and the Central Commission of Control of Economic and Social Activity. It is reported that the reorganization is expected to contribute, among other things, to the reduction of bureaucratic power in economic management.

The most intensive and far-reaching changes and developments in the institutional framework, however, took place at the level of enterprises. The reorganization was associated with the spread of technical innovations and with stricter application of economic criteria in the performance of enterprises. It was again confirmed that large units with an appropriate set-up can bring improvements in efficiency through the combined effects of technical, managerial and economic achievements. The process of reorganizing and of restructuring enterprises was reinforced by the fact that certain improvements previously developed on an experimental basis had reached the stage of practical application in a large number of enterprises. Among such improvements the introduction of complex mechanization and automation, the application of automated systems of management, the almost complete acceptance of the principle of economic accounting and self-financing deserve to be quoted specifically. In addition, some new schemes started in 1973 on an experimental basis. In the Soviet Union, for instance, new experiments aimed at improving management methods were started in 1973. A number of industrial enterprises, mostly in engineering, reorganized their planning methods by introducing the net product as the main indicator of economic performance in order to stimulate economies in material inputs. If applied on a large scale, however, the new indicator would replace the volume of sales or the commodity output as the key indicator of successful performance, which in turn might lead to quite a few changes in the present planning methodology. Another move of an experimental character in the Soviet Union was related to the reform of business relations between the enterprises and the banks.

Rather impressive results in the field of enterprise management were witnessed in Soviet agriculture. They were also associated with the introduction and diffusion of advanced technology, and with the reinforcement of economic criteria against administrative management. As is well known, there are two basic types of farms in Soviet agriculture. In recent years, however, the differences in the economic conditions of operation of these two types have been gradually reduced, largely through the fact that the management of State farms was organized on the principle of full *khozrashchot* (sales prices are the same as for collective farms; self-financing gradually replaces State subsidies). The majority of State farms have been transferred to the new system, and the remaining part should follow in 1974 and 1975. As far as criteria of internal income distribution and remuneration of labour are concerned, the difference between State and collective farms was considerably reduced by the earlier introduction of the system of State farm remuneration and social benefits for collective farms. However, neither the State nor collective farms were always able to meet the requirements of advanced technology.

The process of organizational consolidation was started and speeded up mainly by resorting to massive investments. The size of the new integrated farms reached the level which allows for the specialization of big production units. The technical and economic character of each component part underwent changes through their integration into modern and large agro-industrial complexes which incorporate food-processing and distribution services as well as a number of other activities (construction, fodder mixing plants, etc.). Agriculture is being taken out of its organizational isolation and the emerging institutional framework is based primarily on integrated agro-industrial complexes. All these developments were supported by intensive political, administrative and professional campaigns. Several important decisions, resolutions and decrees, adopted by the highest political and governmental bodies, speeded up the new trend and helped eliminate adverse tendencies.[13] Similar developments can be observed in other countries of the area. Agricultural reorganization in Bulgaria seems to be particularly advanced: hundreds of State and collective farms were consolidated into 172 agro-industrial complexes, each disposing of 25,000-35,000 hectares of agricultural land and with an average employment of over 7,000 workers.

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[12] *Népszabadság*, 20 and 21 December 1973; *Trybuna Ludu*, 23 October 1973 (No. 295); *Rudé Právo*, 29 November 1973.

The reorganization of management in enterprises was linked with new regulations relating to wages, income and profit distribution. In the Soviet Union, the changes in the wage system aimed at closer association of wage increases with higher efficiency and labour productivity. The criteria for the formation of the enterprise's funds were modified in the same direction. Bonuses, premia and other amenities were used as material incentives for stimulating labour productivity. Moreover, the problems of improving "shop floor" democracy (industrial democracy) attracted attention in a number of countries. The producers' conferences, in a consultative capacity, received the highest political and governmental support in the Soviet Union (March 1973), Hungary (June 1973), Poland and Czechoslovakia (January 1974).

Organizational changes in enterprises generated a new cycle of reorganization at the intermediary level of managerial links between enterprises and economic ministries. The main administrative authorities, usually ministry departments, should be replaced by a business type organization—industrial association. In 1973, the new regulations in Romania provided a legal framework for the reorganization of industrial centrals (their number was reduced from 207 to 99). It was reported that the reorganization contributed towards closer links between production and central management and eliminated excessive centralism. In April 1973, the Resolution of the CPSU Central Committee and the USSR Council of Ministers on industrial associations opened the reorganization (as a process and not as an administrative *fiat*) and by the end of 1973, the reorganization was completed in five ministries.

In 1973, problems associated with long-term planning drew more attention in all countries. The preparation of long-term programmes was under way. In June 1973, at the plenary session of the SED Central Committee and the GDR Council of Ministers, the main orientation of the long-term programme, extending to 1990, was discussed. In Bulgaria, the fifteen-year development programme for modernizing technology in agriculture was approved in November 1973. In Poland, the long-term programme for agriculture and food processing is in the course of preparation and should be discussed in 1974. Housing is another field where long-term programming was frequently applied. Hungary is in the final stage of implementing a long-term programme; Poland approved a long-term programme in 1972, and a similar programme was initiated in the German Democratic Republic in 1973. In January 1974, the Hungarian Government approved a long-term programme for energy.

The development of planning in new fields and the increasing attention to long-term planning were associated with developments in planning methodology and techniques. In June 1973, the system of optimal functioning of the economy (SOFE) was discussed in the USSR Gosplan. The discussion covered such topics as the integrated approach to planning, the use of scientific forecasts and the broader application of mathematico-economic models.

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[13] For more detailed references on agricultural development in the Soviet Union in 1973 see *Ekonomicheskaya Gazeta*.

2. PRODUCTION TRENDS

(i) Agriculture

Agricultural production varied widely among the countries of the area in 1973. Total production is reported to have been substantially higher in the Soviet Union than in the preceding year. It also increased satisfactorily—although at less spectacular rates—in Poland, Hungary and Czechoslovakia. In Romania it remained at the high level achieved in 1972. In the German Democratic Republic and Bulgaria plant production decreased in comparison with the previous year's record level, while animal production continued to grow (see table 2.1).

Weather conditions in the area during the year were at best average. Most east European countries suffered from a drought in August-September, which damaged particularly the root crops and the fodder crops. Moreover, an epidemic of foot and mouth disease adversely affected animal production in Hungary and Czechoslovakia. In the absence of the disease, the results obtained could have been even better.

Comparing the level of agricultural production in 1973 with the average level in 1966-1970, it appears that the highest over-all production increase took place in Romania (26.1 per cent), followed by Poland (22 per cent). Output in the Soviet Union increased by 19.4 per cent, in Hungary by 18 per cent, in Czechoslovakia by 17.1 per cent, in the German Democratic Republic by 12 per cent and in Bulgaria by 10.9 per cent. Expressed on an annual average basis, output in Poland, Hungary and Czechoslovakia has been increasing in the present quinquennium at a faster rate than foreseen in the current five-year plan, while in Bulgaria and Romania the growth of agricultural output has been, so far, behind the planned target, which, however, had been set extremely high in the latter country. In the Soviet Union and in the German Democratic Republic, output has been increasing broadly according to plan.[14]

Plant production

In most countries of the area plant production made significant progress in comparison with the previous year. This was mainly because of the impact of the good grain harvest, and in spite of setbacks suffered by other crops. A high general increase of plant production was recorded in the Soviet Union in relation to 1972. Crop output increased by 6-7 per cent in Hungary, by 6.4 per cent in Poland, and by 6.3 per cent in Czechoslovakia. On the other hand, plant production in Romania, Bulgaria and in the German Democratic Republic remained stationary or declined.

As climatic conditions in 1973 were generally favourable for grain but unfavourable for root and fodder crops, over-all results of plant production depended to a considerable extent on the structure of agricultural output in each country. However, results of plant production were also influenced, to a greater extent than in previous years, by economic and technological factors.

Improvements of farm organization and a fuller use of technology played—according to many sources—a larger role in 1973 in determining the outcome of plant production than in previous years. The satisfactory results obtained by some of the countries in the area were due largely to a more intensive use of modern farming methods, in particular an increased application of fertilizers and a greater mechanization of agricultural work, which at least partly offset the adverse effects of weather conditions. This latter aspect seems particularly noteworthy, since it represents a tangible progress in the stabilization of agricultural production in the area, which has been subject, traditionally, to considerable fluctuations.

In the Soviet Union, the 1973 grain harvest was carried out in the shortest time ever recorded. The reason for this was not only that increased quantities of farm machinery were supplied to the agricultural sector, but also that they were used more purposefully and more efficiently. Deliveries of different types of equipment were better synchronized, and carried out on time.

Government price policies were the second important factor influencing crop output in the area. Changes in the level and structure of agricultural producer prices have had an increasing impact on the results of plant production, particularly in some countries of eastern Europe. In Hungary, for example, the previously reported price increases of wheat were certainly instrumental in bringing about the good results obtained in this year's wheat production, in spite of difficult climatic conditions.

The total amount of *grain* harvested in the area in 1973 was almost 296 million tons, compared with 242.5 million tons harvested in 1972, representing an increase of 22 per cent (see table 2.3). The excellent result of 1973 was due mainly to a bumper harvest in the Soviet

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[14] Average annual rate of increase of agricultural output in east European countries, 1973/1966-1970 (*A*), and the 1971-1975 Five-year Plan targets (*B*):

	A	*B*
Bulgaria	2.1	3.2-3.7
Czechoslovakia	3.2	2.5
German Democratic Republic	2.3	2.4
Hungary	3.4	2.8-3.0
Poland	4.1	3.4-3.9
Romania	4.8	6.3-8.3
Soviet Union	3.6	3.9

TABLE 2.1

Gross agricultural output

Country and period	Annual percentage change of output			Indices of output change			Percentage share of output	
	Total	Crop	Animal	Total	Crop	Animal	Crop	Animal
Bulgaria								
1966-1970	4.7 [a]	..	..	100.0	100.0	100.0	65.5*	34.5*
1971	1.9	−0.4	6.2	105.1	101.6	111.7	63.3	36.7
1972	4.8	7.3	1.1	110.1	109.0	112.9	64.7*	35.3*
Plan 1973	7.4	..	..	118.2	..	..	..	..
1973	0.7	−0.8	3	113.4	..	..	..	..
Plan 1974	ca.5	..	..	..	..	..	..	..
Plan 1971-1975	3.2-3.7 [a]	..	..	117-120	..	..	..	..
Czechoslovakia								
1966-1970	3.5 [a]	3.4 [a]	3.7 [a]	100.0	100.0	100.0	47.5	52.5
1971	3.2	2.8	3.5	108.2	102.8	113.0	45.2	54.8
1972	3.9	3.6	4.1	112.4	106.6	117.7	45.1	54.9
Plan 1973	4.0	8.3	0.5 [c]	116.4	115.4	118.3	46.3	53.7
1973	4.2	6.3	2.5	117.1	113.3	120.6	46.0	54.0
Plan 1974	3.8	5.8	2.1	121.5	119.9	123.1	..	..
1971-1973	3.8	4.2	3.3	..	..	..	..	..
Plan 1971-1975	2.7	3.4	2.0	114 [b]	118 [b]	110 [b]	..	..
German Democratic Republic								
1966-1970	1.9 [a]	0.4 [a]	3.1 [a]	100.0	100.0	100.0	45.4	54.6
1971	0.4	−4.8	4.5	100.5	93.6	106.3	42.3	57.7
1972	10.2	16.9	5.3	110.8	109.5	111.9	44.9	55.1
Plan 1973	4.9 [d]	..	..	116.2 [e]	..	..	..	..
1973	1.0	−2.8	4.1	112.0	106.5	116.5	43.2	56.8
Plan 1974	6.8 [d]	..	..	..	..	..	..	..
Plan 1971-1975	2.4 [a]	..	..	..	..	..	..	..
Hungary								
1966-1970	2.8 [a]	1.9 [a]	3.9 [a]	100.0	100.0	100.0	57.4	42.6
1971	9.2	11.7	6.6	109.6	..	..	54.5	45.5
1972	2.7	6.5	−2.0	112.5	109	116	56.3	43.7
Plan 1973	1-2	—	2-3*	..	..	..	..	..
1973	5	6-7	2-3	118	116 *	119 *	..	..
Plan 1974	2-2.5	—	6-7	..	..	..	..	..
1971-1973	5.6	8.2	2.3	..	..	..	..	..
Plan 1971-1975	2.8-3.0 [a]	..	..	..	..	.	..	..
Poland								
1966-1970	2.9 [a]	3.4 [a]	2.3 [a]	100.0	100.0	100.0	..	..
1971	3.6	1.1	6.6	104.7	102.4	107.1	54.2	45.8
1972	8.4	7.0	9.5	113.2	109.6	117.3	53.9	46.1
Plan 1973	2.1	0.0	ca.5	115.6	109.6	123.2	..	..
1973	7.8	6.4	9.3	122.0	116.6	128.2	..	..
Plan 1974	4.3	2.4	6.5	127.2	119.4	136.5	..	..
1971-1973	6.5	4.8	8.5	..	..	..	..	..
Plan 1971-1975	3.5-3.9	3.2-3.7	4.0-4.3	119-121 [b]	117-120 [b]	122-123 [b]	..	..
Romania								
1966-1970	4.2 [a]	3.9 [a]	4.3 [a]	100.0	100.0	100.0	..	..
1971	19.0	26.0	9.0	115.3	115.8	113.6	62.3	37.7
1972	9.2	7.9	11.9	125.9	124.8	127.1	61.3	38.7
1973	0.2	..	..	126.1	..	..	..	..
Plan 1974	21.5	..	..	..	..	..	..	..
1971-1973	9.4	..	..	..	..	..	..	..
Plan 1971-1975	6.3-8.3 [a]	..	..	..	..	..	..	..

TABLE 2.1 *(continued)*

Gross agricultural output

Country and period	*Annual percentage change of output*			*Indices of output change*			*Percentage share of output*	
	Total	*Crop*	*Animal*	*Total*	*Crop*	*Animal*	*Crop*	*Animal*
Soviet Union								
1966-1970	3.9 [a]	4.1 [a]	3.8 [a]	100.0	100.0	100.0	50.9	49.1
1971	1.1	−1.3	3.5	109.2	106.3	112.2	49.5	50.5
1972	−4.1	−7.7	−0.6	104.7	98.1	111.5	47.7	52.3
Plan 1973	12.6	..	..	117.9	..	..	..	..
1973	14	..	..	119.4	..	..	..	..
Plan 1974	4.2 [e]	..	..	127.0	..	..	..	..
1971-1973	3.3	..	..					
Plan 1971-1975	3.9 [a]	..	..	120-122	..	..	..	..
Byelorussian SSR								
1966-1970	3.3	2.2	4.5	100.0	100.0	100.0	50.9	49.1
1971	2.2	1.7	2.7	106.9	104.1	110.1	49.5	50.5
1972	1.6	−1.3	4.5	108.6	102.8	115.0	48.1	51.9
1973	8	..	..					
1971-1973	3.9	..	..					
Plan 1971-1975	ca.8.5 [a]	..	..	150				
Ukrainian SSR								
1966-1970	2.5	1.8	3.2	100.0	100.0	100.0	53.8	46.9
1971	6.1	9.4	2.5	112.2	111.2	113.4	53.3	46.7
1972	−3.7	−7.3	0.4	108.0	103.1	113.8	51.4	48.6
Plan 1973	7.5	..	..	..	..	..	..	..
1973	13.2	..	..	..	..	..	..	..
Plan 1974	0.4 [e]	..	..	..	..	..	..	..
1971-1973	4.5	..	..	..	..	..	..	..
Plan 1971-1975	3.6 [a]	..	..	119	..	..	..	..

Sources: national statistics, *CMEA Statistical Yearbook 1972,* plans and plan-fulfilment reports.

[a] Five-year average over previous five-year average.

[b] Index for 1975, 1970 = 100.

[c] Original version 1.1.

[d] Including food-processing industry.

[e] Calculated on the basis of planned data of Soviet agricultural output:

	Billion roubles 1973	*Billion roubles* 1974 Plan
Soviet Union	96	100
Ukrainian SSR	22.7	22.8

Union, where grain output rose by 32.3 per cent compared with 1972, reaching the unprecedented level of 222.5 million tons. In the east European countries (excluding the Soviet Union), grain output declined by 1.4 per cent, to 73.3 million tons.

The development of grain production in the area is an economically sensitive topic, not so much because of the need to increase supplies of flour and starch for human consumption (demand for which seems largely saturated, per capita consumption being high), but because of the growing demand for feedstuffs.[15]

Grain production has developed in the area at an accelerated pace since the mid-1960s.[16] However, because of the constantly growing grain requirements for feeding purposes (due to the high elasticity of demand for meat), the expansion of output has not been sufficient to prevent increases of imports.

Given the high income elasticity of demand for meat, it has become important to increase meat production rapidly, and, if possible, at a low cost. This tends to explain why "grain-dependent" meat output (pork and poultry), which can be expanded faster and at a lower cost than e.g. beef, accounted for about 70 per cent of

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[15] In the Soviet Union it has been announced recently that over 100 million tons of grain from the 1973 harvest of 222.5 million tons would be used as animal feed by State and collective farms, while about 90 million tons would be purchased by the State.

In 1973, wheat output per head amounted in the Soviet Union to 440 kg, while in the United States it was 220 kg. Even taking into account differences of diet in the two countries, this data provides a measure of the importance of wheat as animal feed in the Soviet Union.

[16] **Average annual rates of increase of grain output**

	1961-1965 / 1956-1960	*1966-1970 / 1961-1965*	*1971-1973 / 1966-1970*
Eastern Europe	1.2	3.7	5.0
Soviet Union	1.4	5.2	3.3
Total area	1.3	4.8	3.7

Sources: CMEA Yearbook, plan-fulfilment reports.

TABLE 2.2

Distribution of agricultural land

(Thousand hectares)

Country and period	*Agricultural land*	*Arable land*	*Area under grain*	*Of which: wheat*	*Land reclamation*	
					Irrigated land	*Drained land*
Bulgaria						
1965	5 793	4 167	2 402	1 145	..	..
1970	6 010	4 142	2 279	1 014	..	..
1971	6 009	4 132	2 324	1 013	..	..
1972	6 022	4 128	2 283	961	..	..
Czechoslovakia					a	a
1965	7 160	5 072	2 590	826	33.9	31.8
1970	7 093	4 998	2 671	1 081	16.9	35.9
1971	7 077	4 989	2 724	1 103	22.4	40.6
1972	7 071	4 980	2 793	1 197	9.1	54.7
German Democratic Republic					a	a
1965	6 358	4 718	2 405	491	21.3	40.6
1970	6 286	4 618	2 342	598	63.0	88.4
1971	6 287	4 622	2 400	635	52.4	114.6
1972	6 291	4 639	2 409	690	61.7	112.5
1973	6 287	4 634	2 453	696	68.0	104.2
Hungary					b	
1965	6 954	5 233	3 329	1 126	100.0	..
1970	6 875	5 189	3 108	1 274	108.7	..
1971	6 855	5 181	3 231	1 273	204.9	..
1972	6 847	5 175	3 321	1 317	266.9	..
Poland					b	c
1965	19 637	15 196	8 809	1 617	307	2 732
1970	19 543	15 088	8 631	1 985	425	2 948
1971	19 508	14 980	8 709	2 061	459	3 062
1972	19 371	14 843	8 718	2 048	478	3 141
Romania					b	c
1965	14 791	9 814	6 897	2 983	229	..
1970	14 930	9 733	6 059	2 321	731	..
1971	14 935	9 728	6 329	2 501	957	..
1972	14 943	9 713	6 392	2 523	1 144	..
1973	..	9 721[e]	..	..	1 254	..
Plan 1974	..	9 721	..	..	1 477	373.0
Eastern Europe (Total)						
1965	60 693	44 200	26 432	8 188	..	..
1970	60 737	43 768	25 040	8 273	..	..
1971	60 671	43 632	25 717	8 586	..	..
1972	60 545	43 478	25 916	8 736	..	..
Soviet Union					b	c
1965	542 828	230 035	128 024	70 205	9 900	10 600
1970	545 778	226 648	119 261	65 230	11 100	10 214
1971	545 905	226 552	117 937	64 035	11 500	10 875
1972	547 766	226 507	120 158	58 492	12 000	11 427
1973			128 000*		12 940*	12 338*
Plan 1974					13 802*	13 300*
Byelorussian SSR						c d
1965	9 863	6 316	2 890	187	..	1 291
1970	9 813	6 173	2 505	442	..	1 752
1971	9 800	6 200	2 537	430	..	1 868
1972	9 800	6 100	2 659	349	..	1 994

TABLE 2.2 *(continued)*

Distribution of agricultural land
(Thousand hectares)

Country and period	*Agricultural land*	*Arable land*	*Area under grain*	*Of which: Wheat*	*Land reclamation*	
					Irrigated land	*Drained land*
Ukrainian SSR					*b d*	*c d*
1965	42 702	34 140	16 495	7 839	503	1 278
1970	42 356	34 116	15 518	6 030	923	1 594
1971	42 300	34 100	15 503	7 357	1 011	1 667
1972	42 300	34 100	15 288	5 221	1 096	1 751
1973					3 000	
Total area						
1965	603 521	274 235	154 456	78 393	..	..
1970	606 515	270 416	144 301	73 503	..	..
1971	606 576	270 184	143 654	72 621	..	..
1972	608 311	269 985	146 074	67 228	..	..

Sources: national statistics, *CMEA Statistical Yearbook 1972,* plans and plan-fulfilment reports.
a New land irrigated or drained each year.
b Total irrigated land.
c Total drained land.
d State and co-operative sector.
e Plan.

total meat output increases in the area in recent years. It developed at the fast rates shown below, which, incidentally, were considerably higher than the rates of increase of grain output in the same period.

Index of pork meat and poultry production 1972/68

	Pork	*Poultry*	*Pork and Poultry*	*Grain a*
Eastern Europe . .	120.2	149.3	124.1	121.7
Soviet Union . . .	131.4	150.6	134.6	113.8
Total area	125.8	150.0	129.4	115.8

Sources: CMEA Yearbook, 1970 and *1973.*
a 1971-1973/1966-1970.

In spite of a 15.8 per cent increase of grain output between 1966-1970 and 1971-1973, the area is a net grain importer, as indicated in table 2.5. Even in years of good harvest, when the Soviet Union has had considerable grain export surpluses, these were insufficient to offset the constantly growing grain requirements of east European countries. In 1972, under the effect of the poor Soviet harvest, total net grain imports of the area amounted to 15.8 million tons. Information on total grain imports of the area in 1973 has not yet been published.

In the Soviet Union, feed-grain output has developed faster than *bread-grain* output, comparing the average of the years 1971-1973 with the average of the years 1966-1970. However, in east European countries, bread-grain production, particularly wheat production, increased more rapidly than total grain output, as indicated in the table below. Rye output declined in the Soviet Union and increased only moderately in eastern Europe.

Index of grain output 1971-1973/1966-1970

	Total grain	*Of which*	
		Wheat	*Rye*
Eastern Europe	121.7	129.3	105.1
Soviet Union	113.8	108.8	91.3
Total area	115.8	112.5	97.5

The total area under grain has been declining in the Soviet Union since 1965. The area under *wheat* has been decreasing at a faster rate than the total grain area, and its share has diminished considerably. Between 1965 and 1972 the area under grain declined in the Soviet Union by 6 per cent, whereas the area under wheat declined by 17 per cent (see table 2.2).

In the Soviet Union, wheat yields have been rising relatively faster than yields of other grain crops. The average wheat yield in 1971-1973 was 22 per cent higher than the average yield in 1966-1970. The average yield of total grain increased by only 15 per cent. Particular efforts were made to improve seed selection and highly productive strains of wheat were progressively introduced into cultivation, e.g. Bezostaiya 1, Mironovskaiya-Yubileinaiya, Kavkaz, etc.

High hectare yields of wheat have been achieved in some regions of the Soviet Union, particularly Moldavia, the Baltic Republics, and the Ukraine, whereas yields in the Transcaucasus and Central Asia have been far below the national average. It should be noted that about two-thirds of the area under grain in the Soviet Union are in the arid or semi-arid zones, with annual precipitations ranging between 250 and 450 mm, and

Table 2.3

Production and yields of basic crops: grains

(Output in million tons; yields in quintals per hectare)

Country and period	Grains total		Wheat		Rye		Barley		Oats		Maize	
	Output	Yield	Output	Yield	Output	Yield	Output	Yield	Output	Yield	Output	Yield
Albania												
1966-1970	0.49 [a]	15.2	0.19	14.4	0.00	6.8	0.00	7.3	0.01	6.3	0.26	18.6
1971	0.55 [a]	16.8	0.23	15.3	0.00	7.0	0.01	8.3	0.01	7.5	0.27	20.8
1972	0.60 [a]	17.3	0.25	15.6	0.00	7.3	0.01	9.2	0.02	8.0	0.30	21.4
1973	0.67 *	..	..	..	..	..	..	..	..	..	..	..
Bulgaria												
1966-1970	6.45	27.4	2.92	27.4	0.04	12.1	0.99	24.4	0.12	12.6	2.15	36.5
1971	7.19	30.8	3.10	30.5	0.02	12.5	1.25	28.9	0.10	13.5	2.52	38.3
1972	8.22	35.9	3.58	37.3	0.02	12.9	1.43	32.0	0.08	11.5	2.97	43.1
1973	7.40	..	3.25	34.8	0.02	12.1	1.36	29.8	..	..	2.57	41.4
Plan 1971-1975	7.50	..	..	..	..	..	..	..	..	..	..	..
Czechoslovakia												
1966-1970	7.11	26.6	2.87	28.9	0.68	21.9	2.09	28.2	0.87	21.5	0.47	34.0
1971	8.86	32.7	3.88	35.3	0.62	26.4	2.85	33.6	0.90	26.5	0.52	39.8
1972	8.73	31.3	4.02	33.7	0.63	27.3	2.65	31.2	0.73	22.8	0.64	44.4
1973	9.83	35.2 [a]	4.66	..	0.69	..	2.97	..	0.76	..	0.72	..
Plan 1971-1975	8.4	31.0 [a b]	..	..	..	..	..	..	..	..	..	..
German Democratic Republic												
1966-1970	6.99	29.4	2.01	36.5	1.72	23.7	1.91	32.4	0.76	30.0	0.00	26.2
1971	7.84	32.9	2.49	39.3	1.75	26.3	2.29	34.8	0.81	35.1	0.00	26.0
1972	8.61	36.0	2.74	39.8	1.90	29.5	2.59	42.0	0.89	36.1	0.00	30.8
1973	8.57	35.3	2.86	41.1	1.70	26.3	2.85	41.2	0.81	33.9	0.00	33.8
Plan 1971-1975	..	44 [b]										
Hungary												
1966-1970	8.40	25.4	3.01	24.3	0.22	11.6	0.85	21.2	0.08	13.9	4.05	32.3
1971	9.95	30.7	3.92	30.7	0.18	14.2	0.79	26.2	0.09	19.0	4.73	35.4
1972	10.95	32.9	4.10	31.0	0.17	14.3	0.81	27.6	0.06	12.6	5.60	39.8
1973	12 *	..	4.49	34.8	0.17	16.3	0.87	30.4	0.07	18.0	5.90	40.5
Plan 1971-1975	9.69 [b]	..	..	..	..	..	..	..	..	..	..	..
Poland												
1966-1970	17.37	19.8	4.26	23.2	7.47	18.3	1.67	23.0	2.89	20.5	0.01	24.1
1971	20.22	23.2	5.46	26.5	7.83	21.1	2.45	27.3	3.20	24.0	0.01	26.9
1972	20.71	23.8	5.15	25.1	8.15	23.0	2.75	27.1	3.21	23.6	0.01	28.6
1973	21.87 [a]	26.5 [a]	5.80	29.6	8.09	..	3.20	29.2	3.20	..	..	..
Plan 1971-1975	21.0 [b]	..	..	..	..	..	..	..	..	..	..	..

Romania												
1966-1970	12.9	19.3	4.7	16.9	0.06	10.8	0.53	19.1	0.14	10.6	7.23	22.3
1971	14.8	23.2	5.6	22.4	0.06	13.7	0.78	23.9	0.16	12.5	7.85	25.1
1972	17.1	26.7	6.0	23.9	0.06	14.0	0.83	25.9	0.11	9.1	9.81	30.7
1973	13.6	..	5.5	23.1	..	23.1	0.72	..	..	..	7.22	24.4
Plan 1971-1975	16.9	..	..	..	..	..	..	..	..	..	..	..
Eastern Europe												
1966-1970	59.27	..	19.75	..	10.19	..	8.04	..	4.86	..	13.91	.
1971	68.86	..	24.44	..	10.46	..	10.42	..	5.26	..	15.63	..
1972	74.32	..	25.63	..	10.93	..	10.06	..	5.08	..	19.03	..
1973	73 27	..	26.56	..	10.73	..	11.97	..	..	..	16.42	..
Soviet Union												
1966-1970	167.56	13.7	90.19	13.4	12.83	11.3	30.45	14.9	11.94	13.7	9.56	27.0
1971	131.18	15.4	98.76	15.4	12.79	13.5	34.57	16.0	14.65	15.2	8.60	25.7
1972	168.18	14.0	85.95	14.7	9.63	11.8	36.81	13.5	14.08	12.4	9.83	24.4
1973	222.50	17.6	109.7	..	..	..	..	..	..	..	13.4	34
Plan 1971-1975	195.00	..	..	..	..	..	..	..	..	..	..	..
Byelorussian SSR												
1966-1970	3.55	13.1	0.53	15.9	1.31	10.8	1.00 [e]	18.0 [e]	0.41	14.6	..	..
1971	5.44	21.4	0.94	21.8	1.35	18.5	2.22 [e]	25.9 [e]	0.69	23.6	..	.
1972	4.59	17.3	0.68	19.6	1.26	18.1	..	..	..	..	..	..
1973	5.73	21.9	..	..	..	..	..	..	..	..	..	..
Ukrainian SSR												
1966-1970	33.35	21.4	16.41	23.4	1.23 [c]	12.8 [a]	5.18 [e]	19.9 [e]	1.27	17.5	5.96	27.6
1971	39.40	25.4	21.98	29.9	1.24 [c]	16.8 [c]	5.64 [e]	22.1 [e]	1.30	18.3	5.92	26.9
1972	32.57	21.2	13.12	25.5	1.00 [c]	15.9 [c]	7.56 [e]	19.2 [e]	..	..	5.95	22.7
1973	48.50	29.1	26.60	..	..	..	..	..	..	..	7.90	..
Plan 1971-1975	40.00	..	..	..	..	..	..	..	..	..	..	..
Total area[f]												
1966-1970	226.82	..	109.94	..	23.02	..	38.49	..	16.72	..	23.47	..
1971	250.04	..	123.20	..	23.25	..	44.99	..	19.91	..	24.23	..
1972	242.50	..	111.58	..	20.56	..	47.87	..	19.16	..	28.87	..
1973	295.77	..	136.26	..	..	..	..	..	..	..	24.82	..

Sources: national statistics; *CMEA Statistical Yearbook;* plans and plan-fulfilment reports.

[a] Cereals only.

[b] 1975.

[c] Winter crops.

[d] Spring barley 19.6.

[e] Spring crops.

[f] Excluding Albania.

TABLE 2.4

Production and yield of basic crops: Root crops, technical crops, vegetables and fruit

(Output in thousand tons; yields in quintals per hectare)

Country and period	Potatoes		Vegetables		Fruit		Sugar-beet		Oil seeds		Tobacco		Cotton	
	Output	Yield	Output	Yield	Output	Yield	Output	Yield	Output	Yield	Output	Yield	Output	Yield
Albania														
1966-1970	..	..	..	..	..	..	..	..	..	..	..	..	..	..
1971	140	70	..	..	..	..	130	216	..	..	12.5	5.2	..	..
1972	140	70	..	..	..	..	130	216	..	..	13.0	5.4	..	..
1973	..	..	..	..	..	..	164*	..	..	..	..	..	..	..
Bulgaria														
1966-1970	380	114	1 541	..	2 412	..	1 860	323	466	16.6	117	10.1	46.4	10.1
1971	404	137	1 527	..	2 207	..	1 516	359	466	16.9	120	10.4	40.0	9.8
1972	382	124	1 633	..	2 058	..	1 951	361	511	17.5	156	12.8	49.4	13.3
1973	324	119	..	..	..	..	1 701	280	447 [a]	17.6 [a]	..	..	39	10.5
Plan 1971-1975 [p]	..	..	2 000	..	3 800	..	..	..	..	..	..	..	..	..
Czechoslovakia														
1966-1970	5 676	151.0	1 183	209.5	656	..	7 195	359.4	80	13.5	8.5	15.3	..	..
1971	4 621	139.4	1 021	184.0	445	..	5 832	308.6	113	17.5	5.9	16.3	..	..
1972	5 058	158.1	1 143	202.1	417	..	6 884	358.5	120	18.5	4.2	11.7	..	..
1973	5 051	..	..	..	..	..	6 129 [a]	..	..	..	..	..	..	..
German Democratic Republic														
1966-1970	12 283	185	1 094 [c]	..	667	..	6 310	313	225	19.1	6.3	15.8	..	..
1971	9 412	143	1 157	..	652	..	5 128	243	202	18.5	4.5	14.4	..	..
1972	12 140	188	1 384	..	600	..	7 223	326	243	20.4	5.4	17.0	..	..
1973	11 401	175	1 166	..	525	..	6 682	292	253	19.6	5.7	17.4	..	..
Hungary														
1966-1970	2 044	105	1 564	..	1 994	..	3 175	325	138	10.5	23.1	11.6	..	..
1971	1 797	116	1 539	..	1 976	..	2 023	278	263	13.0	16.3	11.4	..	..
1972	1 349	111	1 620	..	2 213	..	2 909	370	215	11.0	17.4	11.2	..	..
1973	1 200	109	..	..	..	..	2 752	298	..	..	..	..	..	..
Poland														
1966-1970	47 906	176	3 780	..	1 238	..	13 601	324	544	17.5	77.0	17.5	..	..
1971	39 801	149	3 523	..	1 029	..	12 558	299	628	15.8	70.0	16.6	..	..
1972	48 735	184	3 638	..	994	..	14 341	327	440	15.3	75.0	16.2	..	..
1973	51 900	194	4 298	..	1 194	..	13 600	306	500	16.1	..	..	..	..

Romania														
1966-1970	2 874	93.2	2 087	..	2 311	..	3 513	192.4	834	12.5	30.7	8.4	..	..
1971	3 783	128.9	2 581	..	2 106	..	3 975	223.3	1 027	12.7	30.4	9.2	..	..
1972	3 672	121.9	2 544	..	2 358	..	5 581	283.9	1 104	14.2	37.9	9.7	..	..
1973	2 656	..	2 740	..	2 513	..	4 365	185.7	793	14.7 [a]	..	..	..	..
Eastern Europe [b]														
1966-1970	71 163	..	11 249		9 278	..	35 672	..	2 287	..	262.6	..	46.4	..
1971	59 818	..	11 244	..	8 415	..	31 031	..	2 698	..	247.1	..	40.0	..
1972	71 336	..	11 960		8 640	..	38 889	..	2 633	..	295.9	..	49.4	..
1973	72 532	..	..	..	..	..	35 229	..	..	..	..	..	39.0	..
Soviet Union														
1966-1970	94 813	115	19 472	132	9 710	..	81 118	228	7 180	11.2	207	14.4	6 099	24.1
1971	92 655	117	20 840	132	12 307	..	72 185	219	6 464	10.6	232	14.4	7 101	25.6
1972	78 329	98	19 941	122	9 595	..	76 419	223	5 519	9.1	277	16.4	7 296	26.7
1973	107 700		24 500	..	..	..	86 800	..	7 340 [a]	..	..	..	7 660	27.5
Plan 1971-1975	106 000		25 000	..		..	..	..	..	..	..	..	7 000- 7 200	..
Byelorussian SSR														
1966-1970	13 714	140	790	171	276	..	1 039	214	..	..	..	..	..	..
1971	12 316	130	616	125	681	..	797	168	..	..	..	..	..	..
1972	13 020	138	880	171	243	..	1 350	272	..	..	..	..	..	..
1973	14 393	..	802	..	..	..	1 159	..	..	..	..	..	..	..
Ukrainian SSR														
1966-1970	20 294	100	5 585	119	3 281	..	46 731	267	2 830 [a]	16.4 [a]	..	..	..	..
1971	23 437	123	6 231	125	3 578	..	46 101	279	2 634 [a]	15.8 [a]	..	..	..	..
1972	22 115	116	5 944	118	2 888	..	49 563	293	2 398 [a]	13.6 [a]	..	..	..	..
1973	22 100	..	7 100	..	..	..	47 200	..	3 000 [a]	..	..	..	..	..
Total area [b]														
1966-1970	165 976	..	30 721	..	18 988	..	116 790	..	9 467	..	469.6	..	6 145.4	..
1971	152 473	..	32 139	..	20 722	..	103 216	..	9 162	..	479.1	..	7 141	..
1972	149 665	..	31 901	..	18 235	..	115 308	..	8 152	..	572.9	..	7 345.4	..
1973	180 232	..	..	..	..	..	..	..	..	..	..	..	7 699	..

Sources: national statistics, plans and plan-fulfilment reports.

[a] Sunflower only.

[b] Without Albania.

[c] Including vegetables grown in hothouses.

[p] Provisional.

Grain output in eastern Europe and the Soviet Union

(Million tons and percentages)

	Average 1966-1970	1971	1972	1973	Average 1971-1973	1973 as a percentage of: Average 1966-1970	1973 as a percentage of: 1972
Eastern Europe	59.27	68.86	74.32	73.27	72.15	123.6	98.6
Soviet Union	167.56	181.18	168.18	222.50	190.62	132.7	132.3
Total area	226.83	250.04	242.50	295.77	262.77	130.4	122.0

Source: national statistics, plans and plan-fulfilment reports.

with a seasonal pattern of snow- and rain-fall often unfavourable for wheat cultivation.

The 1973 bumper crop of wheat in the Soviet Union seems to have come to a larger extent than in the past from the areas with traditionally high wheat yields. Of the total Soviet wheat harvest of 109.7 million tons, the Ukrainian SSR produced 26.6 million tons. The 1973 wheat crop in the Soviet Union as a whole was 28 per cent higher than in the previous year, whereas the Ukrainian harvest more than doubled. The share of the Ukrainian SSR in total Soviet wheat output was 15.3 per cent in 1972, and 24.2 per cent in 1973.

In 1973, for the third year in succession, there was a record wheat crop in Czechoslovakia (4.66 million tons), in Hungary (4.49 million tons) and in Poland (5.80 million tons). In east European countries, wheat production seems to have benefited most from the policy measures taken in the late 1960s, destined to boost agricultural output and to modernize the agricultural sector. Successive price adjustments made wheat the most profitable crop in several countries,[17] and with the increasing degree of freedom given to the collective farmers to plan their output, wheat production tended to expand, due both to enlarged areas under wheat and to increasing yields.[18] Wheat cultivation has now been largely mechanized, and improved soil conditions, as well as the introduction of new, high yielding varieties, have contributed to reducing the long-standing gap between yields in eastern and western Europe.[19]

Results of *feed-grain* cultivation in the area were generally good. In the Soviet Union a remarkable increase of output was obtained in the case of maize, not only in comparison with 1972, but with previous years

Wheat yields in the Soviet Union by region, 1971-1972

(Quintals per hectare)

	1971 Summer wheat	1971 Winter wheat	1972 Summer wheat	1972 Winter wheat
Soviet Union Total	11.8	23.1	13.0	19.6
RSFSR	13.1	20.8	13.1	16.7
Ukrainian SSR	18.6	29.9	16.6	25.5
Byelorussian SSR	26.4	21.8	15.0	19.7
Lithuania	29.1	26.1	16.9	25.8
Latvia	24.8	26.6	21.1	26.6
Estonia	27.3	24.2	19.2	23.9
Moldavia	..	28.2	..	33.1
Georgia	6.1	14.3	5.2	16.3
Azerbaidzhan	4.0	12.8	6.1	14.1
Armenia	7.1	16.1	7.9	17.2
Kazakhstan	9.4	11.6	12.9	13.8
Uzbekistan	4.4	3.6	6.3	5.9
Kirghizia	7.8	16.5	13.5	20.0
Tadzikistan	4.3	5.3	7.6	6.4
Turkmenia	7.6	9.4	7.2	10.4

Source: Soviet Statistical Yearbook 1972, p. 326-327.

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[17] In Hungary, the total production cost of one quintal of wheat is about 150 forints, assuming a yield of 35 quintals per hectare, whereas the procurement price paid to producers is 295 forints, *Figyelő*, 8 August 1973.

[18] Areas under wheat have been increasing since the early 1960s in Czechoslovakia, the German Democratic Republic, Hungary and Poland. In Romania and Bulgaria they remained stationary and recently slightly declined.

[19] See *The European Economy from the 1950s to the 1970s*, 1972, p. 72. In 1972, wheat yields in eastern Europe (excluding Albania) varied between 24 quintals per hectare in Romania and almost 40 quintals per hectare in the German Democratic Republic, whereas in western Europe they were between 25 quintals per hectare in Italy and 45 quintals per hectare in Belgium.

as well, since 1972 was relatively favourable for maize cultivation although it was unfavourable for wheat. Hungary also had an excellent maize crop in 1973.[20] On the other hand, the results of maize cultivation in Bulgaria and Romania were relatively poor.

Output of barley increased considerably in 1973 in all countries for which information is available, but particularly in Poland and in Czechoslovakia. New high yielding strains of barley with an improved protein content have been developed in the Soviet Union and started to be piloted recently.

The relatively poor results of *root crops* in east European countries in 1973 seem to have been caused by several factors (see table 2.4). The late summer drought damaged the plants at an important moment during ripening. Lagging mechanization of root crop cultivation also influenced the outcome of the potato and sugar-beet harvests. Finally, at least in some countries, root crop growing seems financially less attractive for the collectives than the cultivation of other crops.[21]

The area under *potatoes* has had a declining trend in all countries throughout the 1960s and early 1970s. In 1973 the only two countries which had a good potato harvest were Poland [22] and the Soviet Union.

The area under *sugar-beet* decreased during the 1960s in all countries of the region. However, in the past few years it has started expanding again, in response to improved incentives for sugar-beet cultivation, particularly in some countries of eastern Europe.

Output of sugar-beet declined in 1973 in all east European countries. It increased in the Soviet Union, although it diminished in the Byelorussian SSR and in the Ukrainian SSR (table 2.4). Although the sugar-content was apparently higher than last year, this did not compensate for the fall in production.

In the Soviet Union, output of *sunflower* increased in 1973 by 45.4 per cent compared with the relatively poor 1972 crop level. It was 14.9 per cent higher than the average output of the years 1966-1970. Output of oil seeds increased by 13.6 per cent in Poland, but declined in Bulgaria and Romania. Areas under oil seeds have been expanding in recent years in all countries of the region.

Output of *cotton* continued to expand in the Soviet Union, and a third successive all-time high crop was achieved in 1973. This success was largely due to improvements of technology and to more intensive cultivation methods.

TABLE 2.5

East European and Soviet trade in cereals, 1970-1972

(Thousand tons)

Country and period	*Imports*	*Exports*	*Balance*
Bulgaria			
1970	518	467	−51
1971	208	572	+ 364
1972	30	599	+ 569
Czechoslovakia			
1970	1 443	55	−1 388
1971	2 122	35	−2 087
1972	2 079	55	−2 024
German Democratic Republic			
1970	3 374	4	−3 370
1971	2 860	10	−2 050
1972	3 065	10	−3 055
Hungary			
1970	225	865	+640
1971	832	166	−666
1972	498	468*	−30
Poland			
1970	2 569	200	−2 369
1971	3 038	111	−2 927
1972	3 050	160	−2 890
Romania			
1970	36	402	+ 366
1971	211	746	+ 535
1972	430	608	+ 178
Eastern Europe			
1970	8 165	1 993	−6 172
1971	9 271	1 640	−7 631
1972	9 152	1 900	−7 252
Soviet Union			
1970	2 882	6 918	+4 086
1971	3 971	9 573	+5 602
1972	12 940	4 382	−8 558
Total area			
1970	10 997	8 911	−2 086
1971	13 242	11 213	−2 029
1972	22 092	6 282	−15 810

Source: FAO Trade Yearbook, 1972.

Efforts have been made in recent years to increase *fodder production* and the areas under green fodder plants have expanded. In 1973, increases of green fodder production have been reported in Poland, Bulgaria and Romania. However, in other countries of the region, for instance in the German Democratic Republic, fodder output was seriously affected by the drought. Output and yields were considerably below the long-term average.

Vegetable production in the Soviet Union made good progress in 1973, rising by almost 23 per cent. Increased attention is being paid to its development in view of the need to match supplies of fresh vegetables with rising demand. Vegetable production also expanded in Poland

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[20] The area under high-yielding maize in Hungary amounted to 250,000 hectares in 1973. Yields in the special project areas reached 54.5 quintals per hectare.

[21] In the Soviet Union, the average profitability of crops varies between a 2 per cent loss on sugar-beet and a 200 per cent profit on sunflower, *Pravda*, 7 December 1973.

[22] Potato prices were raised in Poland in 1973 as well as the prices of some technical crops such as tobacco, hops and poppy seed.

TABLE 2.6

Livestock and livestock output

(In thousands of heads, thousand tons)

Country and period	Livestock [b]					Livestock output				
	Cattle [a]	Of which: cows	Pigs	Sheep and goats	Indices of animal units (1966/70 = 100) [i]	Meat Total [c]	Of which: Poultry	Milk [d]	Eggs [e]	Wool
Albania										
1966-1970	..	..	..	..	..	..	..	..	..	..
1970	435	..	150	2 940	..	54	..	105	0.00	..
1971	442	..	155	2 900	..	55	..	104	0.00	..
1972	440	..	150	2 890	..	56	..	102	0.00	..
Bulgaria										
1966-1970	1 405	627	2 213	10 062	100.0	497	70	1 582	1 587 [f]	27.7
1971	1 453	645	2 060	10 445	101.9	521	111	1 671	1 707	29.7
1972	1 512	656	2 599	10 223	106.9	565	108	1 674	1 664	31.5
1973	1 521	648	2 431	10 060 *	105.6	546	118 *	1 716 *	1 696 *	..
Czechoslovakia										
1966-1970	4 332	1 910	5 322	1 233	100.0	1 038	77	4 735	3 346	3.2
1971	4 349	1 900	5 935	1 173	102.2	1 157	111	5 092	3 996	4.1
1972	4 466	1 906	6 093	1 101	104.7	1 225	119	5 266	4 120	3.9
1973	4 556	1 929	5 990	850 [g]	105.8	1 263	..	5 582	4 253	..
German Democratic Republic										
1966-1970	5 081	2 176	9 402	1 969	100.0	1 245	77	6 795 [h]	4 114	7.8
1971	5 293	2 173	9 995	1 720	104.0	1 325	99	6 763 [h]	4 504	7.5
1972	5 379	2 169	10 361	1 753	106.1	1 423	107	7 109 [h]	4 425	7.7
1973	5 482	2 164	10 849	1 819	108.9	1 489	111	7 287 [h]	4 553	8.4
Hungary										
1966-1970	1 975	763	6 317	2 401	100.0	989	189	1 744	2 787	10.3
1971	1 883	750	7 594	2 184	104.2	1 215	237	1 654	3 475	8.8
1972	1 893	762	6 858	1 971	99.6	1 270	243	1 679	3 217	8.3
1973	1 930	786	8 011	2 000 *	107.7	1 206	258	1 807	3 300	7.7
Poland										
1966-1970	10 232	5 921	14 477	2 922	100.0	2 160	127	14 688	6 511	8.7
1971	10 562	5 904	16 946	2 776	105.6	2 232	150	15 185	7 080	9.1
1972	11 265	6 023	19 023	2 731	113.5	2 480	172	15 796	7 475	9.0
1973	12 200 [k]	6 065 [k]	19 750 [k]	3 050 [kg]	122.2	2 768 *	192	16 317	7 652	9.0

Romania										
1966-1970	5 183	2 211	5 864	14 747	100.0	802	104	3 969	3 158	29.2
1971	5 528	2 385	7 742	14 634	108.7	897	145	3 969	3 672	28.7
1972	5 767	2 447	8 785	14 989	115.3	1 063	190	4 285	3 874	30.7
1973	5 895	2 941	8 985	14 324	117.6	1 267	. .	4 471	4 646	31.6
Eastern Europe [l]										
1966-1970	28 208	13 608	43 595	32 962	100.0	6 731	644	33 513	21 503	86.9
1971	29 068	13 757	50 272	32 641	105.2	7 330	853	34 334	24 434	87.9
1972	30 291	13 963	53 719	32 556	109.8	8 031	939	35 809	24 775	91.1
1973	31 584	14 533	56 016	32 103	113.9	8 539	. .	37 180	26 100	. .
Soviet Union										
1966-1970	96 880	41 099	56 296	142 090	100.0	11 583	853	80 533	35 846	398
1971	102 434	41 221	71 434	145 333	106.9	13 272	1 183	83 183	44 370	429
1972	104 006	41 702	66 593	144 690	107.3	13 633	1 230	83 227	47 170	420
1973	106 200	42 300	69 900	148 300	109.9	13 500	. .	87 200	50 800	428
Byelorussian SSP										
1966-1970	5 060	2 513	3 530	713	100.0	642		4 907	1 437	1.3
1971	5 581	2 553	4 072	657	109.8	734		5 168	1 867	1.2
1972	5 769	2 593	4 115	661	113.0	765		5 467	2 067	1.2
Ukrainian SSR										
1966-1970	20 964	8 839	17 068	8 941	100.0	2 677		17 937	8 293	24.2
1971	22 255	8 840	21 397	9 069	108.1	3 035		18 947	9 858	25.1
1972	22 662	8 962	19 600	9 082	108.3	3 199		10 339	10 464	25.6
Total area [l]										
1966-1970	125 088	54 707	99 891	175 052	100.0	18 314	1 497	114 066	57 349	484.9
1971	131 502	54 978	121 706	177 974	106.5	20 602	2 036	117 517	68 804	516.9
1972	134 297	55 665	120 312	177 246	107.9	21 664	2 169	119 036	71 945	511.1
1973	137 784	56 833	125 916	180 403	110.9	22 039	. .	124 380	76 900	. .

Sources: national statistics, *CMEA Statistical Yearbook 1972*, plans and plan-fulfilment reports.

[a] Including buffaloes and yacks when applicable.

[b] End of year census (1 January of following year for Soviet Union).

[c] Meat total, carcass weight.

[d] Milk total, cows and others, in thousand tons.

[e] Hens' eggs, million.

[f] Eggs total, hens and others.

[g] Sheep only.

[h] Cow milk only.

[i] Total animal units calculated on the basis of the following coefficients: cows 1.0: cattle 0.8: pigs 0.18; sheep and goats 0.09.

[k] June census.

[l] Excluding Albania.

and Romania. In Bulgaria, output of certain kinds of vegetables increased, while output of some others declined. In the German Democratic Republic, vegetable production declined by 15.7 per cent (in the first 8 months of the year it was 10 per cent above the level of the corresponding period of the previous year).[23]

All the *wine-growing* countries reported in 1973 exceptionally large grape harvests, particularly Hungary, Bulgaria and Romania, output increasing in Hungary by 21 per cent, in Romania by 49 per cent, and in Bulgaria by 52.6 per cent. Wine production increased in Romania by as much as 70 per cent in comparison with 1972, and the quality is reported to be good.

Animal production

In 1973, animal output increased in all countries of the area for which information is available. The biggest rise was recorded in Poland (9.3 per cent), the third large increase of livestock production in succession. In the other countries, increases of animal output were less spectacular, but generally satisfactory (tables 2.1 and 2.6).

In all countries, animal production in the past five years tended to grow faster than plant production and the share of animal output in total output increased. The faster than average growth of animal output is to be stressed as another stabilizing factor in agricultural production, livestock output being less influenced by weather conditions than crops.[24]

Livestock numbers continued to increase in all countries except Bulgaria, in spite of the decline in fodder production. Government policies were aimed everywhere at stabilizing animal stocks and at preventing depletions, even at the cost of increased fodder imports.

The largest expansion of livestock took place in Poland. Cattle numbers increased by 6.5 per cent and the number of pigs by 13.8 per cent. In Hungary, the cattle herd increased by 2.0 per cent, but the number of pigs rose by as much as 16.8 per cent in spite of an epidemic of foot and mouth disease.[25] Measures were taken by the Hungarian Government to encourage cattle-breeding,[26] although the full impact is expected to be felt only in a few years. On the other hand, the expansion of the pig stock which took place in 1973 is a result of the incentives for pig-raising introduced in earlier years.

Trying to encourage a faster increase of livestock output, the Bulgarian Government introduced in 1973 a series of measures destined to improve incentives for animal breeding, both in the socialist and private-plot sectors. In order to stabilize livestock numbers, particularly pig numbers (which declined in 1973), dispositions were taken for increased amounts of feedstuffs to be provided to the farmers against delivery agreements for slaughtering animals. In 1974, the Central Co-operative Alliance is to supply 250,000 tons of grain to private plot holders to allow them to increase meat production. The Government has also decided to increase premia for deliveries of animals for slaughter. Credit facilities will be extended to farmers—both collective and private plot holders—allowing them to purchase breeding stock, construction materials, mechanized equipment, etc.

Meat output increased in 1973 in the six east European countries by 6.3 per cent on average but declined by 1 per cent in the Soviet Union. The highest growth of meat output took place in Poland [27] and Romania. Meat production also increased in the German Democratic Republic and Czechoslovakia. In Bulgaria it remained at last year's level, while it declined in Hungary.

Hungary, Bulgaria and to a lesser extent Romania and the German Democratic Republic have been net meat exporters in recent years. The Soviet Union, Czechoslovakia, and lately also Poland, have been net meat importers (see table 2.7). In the latter country, meat consumption per head increased from 53 kg in 1970 to 59.3 kg in 1972 and to 62 kg in 1973. Although the five-year-plan target of meat output was practically met, home production was insufficient to cover consumers' demand since incomes grew at a faster rate than envisaged in the plan. Information on State procurements of major crop and animal products is contained in table 2.8.

Capital investment and material inputs

New investment efforts in the agricultural sector were made by all countries of the area in 1973. In the Soviet Union, total capital outlays in agriculture increased by 8.0 per cent, which was a higher rate than the one foreseen by the plan. In 1971 and 1972, however, the rate of growth of agricultural investment has been even more important (11.7 and 9.1 per cent respectively). In Czechoslovakia the volume of investment in agriculture increased by 6.2 per cent, and in Poland by 15.7 per cent. In Romania, there was a slight decline. In the German Democratic Republic, investment in the agricultural sector amounted to 4,420 million marks, having increased by 2.4 per cent: in the first three years of the current five-year plan, 13,124 million marks were invested in agriculture. This sum represents about 49 per cent of the five-year planned total, which seems to indicate that total outlays have been lagging behind the planned provisions. The average share of agriculture in total investment outlays of the German Democratic Republic was 12.6

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[23] In 1973, a special long-term programme was prepared destined to boost the cultivation of fruit and vegetables and to increase supplies of fruit and vegetables to the population.

[24] In spite of the steady increases of animal output in recent years, only Czechoslovakia, the German Democratic Republic and the Soviet Union have obtained, so far, a higher share of animal production than of plant production. In the other countries, plant production still represents the major part of agricultural output.

[25] According to the estimates made in the country, the disease represented a loss of about 4 billion forints to total animal production.

[26] The procurement price for cattle assures a 15 per cent profit to producers.

[27] In Poland, purchasing prices were raised of prime quality beef (cattle weighing over 350 kg), of calves weighing over 80 kg, of slaughter horses and of ducks. Prices of sheep hides and wool were also raised.

TABLE 2.7

Imports and exports of meat in eastern Europe and the Soviet Union, 1970-1972

(Thousand tons)

Country and period	*Imports*	*Exports*	*Balance*
Bulgaria			
1970	16.1	43.5	27.4
1971	15.0	52.2	37.2
1972	15.2	56.1	40.9
Czechoslovakia			
1970	125.0	14.9	−110.1
1971	161.5	19.0	−142.5
1972	141.3	19.0	−122.3
German Democratic Republic			
1970	13.0	20.0*	7.0
1971	14.0	22.0*	8.0
1972	14.0	22.0*	8.0
Hungary			
1970	57.7	101.9	44.2
1971	12.7	137.5	124.8
1972	12.8	133.2	120.4
Poland			
1970	42.8	54.7	11.9
1971	150.4	72.1	−78.3
1972	78.4	68.6	−9.8
Romania			
1970	0.5	22.0	21.5
1971	3.8	10.4	6.6
1972	4.0	10.0	6.0
Eastern Europe			
1970	255.1	257.0	1.9
1971	357.4	313.2	−44.2
1972	265.7	308.9	43.2
Soviet Union			
1970	142.9	47.2	−95.7
1971	202.3	22.4	−179.9
1972	85.0	48.5	−36.5
Total area			
1970	398.0	304.2	−93.8
1971	559.7	335.6	−224.1
1972	350.7	357.4	6.7

Source: FAO Trade Yearbook, 1972.

per cent in 1971-1973, instead of 15.2 per cent foreseen by the five-year plan.

The share of agricultural investment in total capital outlays varied considerably by countries in 1973. In Czechoslovakia it amounted to about 10.5 per cent, in the German Democratic Republic to 11.9 per cent, in Poland and Hungary to approximately 16 and 19 per cent respectively, and in the Soviet Union to 26 per cent.

Particular attention has been paid in the Soviet Union to land reclamation in recent years (see table 2.2). In 1973, about one-fifth of total agricultural investment was earmarked for melioration and irrigation. In comparison with 1972 investment for land reclamation increased by 15 per cent.

In 1973, deliveries of agricultural machinery increased in all countries for which information is available (see table 2.10). Tractor deliveries in Hungary increased by 7.3 per cent and in Poland by 3.4 per cent. In the German Democratic Republic, supplies of tractors increased by as much as 50.8 per cent compared with the 1972 level, which, however, was considerably lower than the previous years' average. Tractor deliveries in the Soviet Union rose by 2.9 per cent and deliveries of motor-trucks by 20 per cent, whereas deliveries of grain combines declined slightly. Grain combine supplies increased at a high rate in Poland (37.7 per cent) and in the German Democratic Republic (23.8 per cent). Grain combine deliveries in Hungary rose by 8.1 per cent.

Fertilizer application is reported to have risen by 33.6 per cent in Romania, by 8.5 per cent in the German Democratic Republic and by approximately 5 per cent in Poland. Fertilizer application per hectare of agricultural land increased by 17.5 per cent in Hungary and 3.5 per cent in Czechoslovakia. In Bulgaria, fertilizer deliveries were somewhat lower than in the previous year. The problems of mechanization and of a wider use of chemical products in agriculture became the centre of particular attention in Bulgaria in the course of the year. Measures were taken by the authorities in November 1973 aimed at speeding up technological progress in the agricultural sector, at increasing soil reclamation, intensifying biological research, as well as at reorganizing the institutional framework of agriculture.[28]

The majority of east European governments have followed, in recent years, deliberate policies directed towards a rapid increase of agricultural output, by stepping up investment in agriculture and by creating various price incentives. The aim of these policies was to achieve a greater degree of self-sufficiency in food-stuffs in the case of some countries, and to boost food exports in the case of other countries, while having to satisfy constantly rising home demand. One of the results of this policy was a change in price relations between the domestic, agricultural and non-agricultural sectors, which improved the relative income position of farmers vis-à-vis other strata of population. The effect was further reinforced by the relative improvement of farmers' average incomes, resulting from the fact that an increasing volume of agricultural production was being achieved by a gradually shrinking labour force.

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[28] *Rabotnichesko delo*, 3 December 1973.

TABLE 2.8

State procurements of major crop and animal products

(Thousand of tons, eggs in billions of units)

Country and period	Grain a Total Volume	Grain a Total % of total output	Grain a Bread-grains Volume	Grain a Bread-grains % of total output	Potatoes Volume	Potatoes % of total output	Sugar-beet Volume	Sugar-beet % of total output	Sunflower seed b Volume	Sunflower seed b % of total output	Meat c Volume	Meat c % of total output	Milk d Volume	Milk d % of total output	Eggs Volume	Eggs % of total output
Bulgaria																
1966-1970	1 635	25.3	..	.	..	..	1 846	99.2	447	96.8	512	72.6*	1 124	73.2	1 037	65.3
1971	1 855	25.8	..	.	..	..	1 505	99.3	444	96.1	550	74.3*	1 212	74.8	1 189	68.1
1972	1 981	24.1	..	.	..	..	1 910	97.9	473	97.9	584	72.7*	1 214	74.4	1 172	68.0
1973	.		.		..	.	..	..	..	..	586*	73.0*	1 252*	74.9*	1 208*	68.8*
Czechoslovakia																
1966-1970	1 883	27.0	1 231	34.7	1 680	29.6	6 913	96.1	..	..	1 023	85.0	3 410	77.8	1 707	51.0
1971	2 001	22.8	1 327	29.5	1 647	35.6	6 699	97.7	..	..	1 138	87.2	3 874	81.1	2 013	50.4
1972	2 308	26.6	1 482	31.9	1 934	38.2	6 749	98.0	..	..	1 213	88.6	4 119	82.9	2 079	50.5
1973	2 146	22.0	..	..	1 601	31.9	6 066	99.0			1 264	89.5	4 454	84.6	2 120	49.8
German Democratic Republic																
1966-1970	2 254	32.2	1 452	39.0	3 931	32.0	5 498	87.0	226	97.8	1 585	89.9	6 366	90.5	3 126	76.0
1971	2 457	31.3	1 517	35.7	4 105	43.6	4 503	87.8	206	99.0	1 703	91.2	6 576	92.0	3 631	80.6
1972	2 579	30.0	1 553	33.4	4 532	37.3	5 861	81.1	250	101.2	1 853	92.6	6 978	92.9	3 637	82.2
1973	2 692	32.3	1 582	34.7	4 408	38.7	5 602	83.3	254	99.6	1 953	93.3	7 269	93.9	3 815	83.8
Hungary																
1966-1970	2 362	28.1	1 996	61.8	414	20.3	3 121	98.3	91	91.0	781	61.4	1 116	60.5	872	31.3
1971	3 188	32.0	2 545	62.1	351	19.5	1 970	97.4	131	86.2	1 049	67.9	1 156	66.1	1 016	29.2
1972	4 054	37.0	2 752	64.5	289	18.0	2 868	98.6	123	91.8	1 103	68.9	1 179	67.1	794	24.7
1973	..	..	3 341	71.7	216	18.0	2 707	96.7	136	..	1 077	..	1 343	74.3	787	23.8

Poland																		
1966-1970 . . .	4 287	25.3	3 134	26.7	5 109	10.7	13 601	100.0	471	86.6	2 068	75.2	4 977	35.1	2 284	35.1
1971	5 654	28.5	3 968	29.9	4 131	10.4	12 557	100.0	541	76.3	1 554	51.2	5 456	37.1	2 472	34.9
1972	5 077	24.9	3 566	26.8	4 462	9.2	14 431	100.0	392	89.1	1 857	55.4	6 599	43.2	2 633	35.2
1973 . .	5 800	26.4	4 299	31.0	5 200	10.0	13 600	100.0	480	96.0	2 100*	76.4	7 372	45.2	2 452	32.0
Soviet Union																
1966-1970 .	66 018	39.4	50 867	49.3	10 921	11.5	74 426	91.8	4 672	73.1	7 320	63.2	43 197	53.6	14 404	40.2
1971 . .	64 119	35.4	52 147	46.7	11 482	12.4	64 329	89.1	4 359	77.0	9 203	69.3	47 078	56.6	21 570	48.6
1972 .	59 971	35.7	45 084	47.2	11 087	14.2	68 043	89.0	3 753	74.3	9 672	70.9	48 444	58.2	24 299	51.5
1973	90 000	40.4	. .	. .	15 400	14.3	. .	. .	. .	. .	9 500	70.4	53 000	60.8	27 600	54.3
Byelorussian SSR																
1966-1970	443	12.5	325	17.7	1 236	9.0	949	91.3	. .	. .	414	64.5	2 304	47.0	376	26.2
1971 .	675	12.4	471	20.6	1 360	11.0	726	91.1	. .	. .	535	72.9	2 609	50.5	586	31.4
1972	1 003	21.8	573	29.5	2 412	18.5	1 206	89.4	. .	. .	563	73.6	2 850	52.1	699	33.8
1973 .	1 106	19.3	. .	. .	. .	. .	. .	. .	. .	. .	582	. .	3 207	. .	883	. .
Ukrainian SSR																
1956-1970 .	11 118	33.3	7 699	43.6	1 780	8.8	42 850	91.7	1 982	70.0	1 572	58.8	9 881	55.1	2 303	38.6
1971 .	12 573	31.9	9 708	41.8	2 387	10.2	40 632	88.1	2 017	76.6	1 957	64.5	11 002	58.1	4 425	44.9
1972 . . .	9 237	28.4	5 441	38.2	2 731	12.3	43 700	88.2	1 795	74.9	2 134	66.7	11 467	59.3	5 000	47.8
1973	17 500	36.1	. .	. .	2 518	11.4	. .	. .	2 359	. .	2 100	. .	12 800	. .	5 800	. .

Sources: national statistics, *CMEA Statistical Yearbook 1972*, plans and plan-fulfilment reports.

a Grain, total. Czechoslovakia cereals only.

b Rape seed in case of Poland, total oilseeds in case of the German Democratic Republic.

c Live weight. Carcass weight in case of the Soviet Union, Byelorussian SSR and Ukrainian SSR.

d Million litres. German Democratic Republic, Soviet Union, Byelorussian SSR and Ukrainian SSR, thousand tons.

TABLE 2.9

Investments in Soviet agriculture

(In millions of roubles)

Period	Capital outlays			Direct investment in agriculture			Productive investment		
	Total	State	Collective farms	Total	State	Collective farms	Total	Construction works	Machinery and equipment
1966-1970	16 400	..	..	14 905	9 023	5 882	11 900	..	..
1971	21 900	13 900	8 000	19 760	12 565	7 195	16 417	11 711	4 706
1972	23 900	15 200	8 700	21 631	13 889	7 742	18 095	12 980	5 115
Plan 1973	25 400	16 400	9 000	..	..	..	..	..	..
1973	25 800	16 400	9 400	..	..	..	..	..	..
Plan 1974	27 900	18 400	9 500	..	..	..	..	..	..
1971-1973	23 900	15 200	8 700	..	..	..	..	..	..
Plan 1971-1975	..	16 440	..	..	..	..	..	..	..

Sources: national statistics, plans and plan-fulfilment reports.

TABLE 2.10

Stocks and deliveries of farm machinery and chemical fertilizers

(Machines in thousands, fertilizers in thousand tons)

Country and period	Stocks				Deliveries			Fertilizer supplies	
	Tractors				Tractors				
	Physical units	15 h.p.	Grain combines	Motor trucks	Physical units	Grain combines	Motor trucks	Total	Kg/ha. of arable land
Bulgaria									
1966-1970	53.6	93.7	9.3	..	3.47	..	..	639	159
1971	55.3	99.4	9.5	..	4.78	..	..	636	158
1972	..	110	9.9	..	6.45	..	..	646	268
1973	..	..	..	..	..	..	..	633	..
Czechoslovakia									
1970	136	213	16.4	..	8.33	1.50	..	1 188 [a]	168.6 [b]
1971	138	223	17.7	..	9.22	1.78	..	1 282 [a]	182.4 [b]
1972	139	236	18.2	..	10.41	1.38	..	1 373 [a]	195.5 [b]
1973	..	..	..	..	..	..	..	..	202.3 [b]
Plan 1974	..	..	..	..	..	..	..	..	210.6 [b]
German Democratic Republic [c]									
1970	148.9	..	17.9	27.2	11.40	1.78	..	1 535	319
1971	148.7	..	15.9	28.2	8.46	1.53	..	1 601	332
1972	146.4	..	14.5	29.7	6.30	1.01	1.07	1 618	334
1973	143.3	..	12.0	32.4	9.49	1.25	1.40	1 755	361
Plan 1974	..	..	..	..	10.37	1.35	2.22	..	..
Hungary									
1970	68.9	113	11.8	15.1	9.43	1.51	..	837	150
1971	68.2	117	12.6	17.8	8.79	2.01	..	954	171
1972	66.0	118	12.9	18.4	6.06	1.48	..	1 017	183
1973	65	119	..	19	6.50	1.60	..	1 190	215
Poland									
1970	225	279	14.0	..	27.18	2.01	..	2 416	162
1971	248	320	15.7	..	32.84	1.99	..	2 572	172
1972	279	363	17.1	..	38.69	1.67	..	2 887	196
1973	..	..	..	..	40	2.30	..	3 030*	..

TABLE 2.10 *(continued)*

Stocks and deliveries of farm machinery and chemical fertilizers
(Machines in thousands, fertilizers in thousand tons)

Country and period	*Stocks*				*Deliveries*			*Fertilizer supplies*	
	Tractors				*Tractors*				
	Physical units	*15 h.p.*	*Grain combines*	*Motor trucks*	*Physical units*	*Grain combines*	*Motor trucks*	*Total*	*Kg/ha. of arable land*
Romania									
1970	107.3	184.8	5.90	..	..	..	..	594	62
1971	114.2	198.6	7.06	..	..	..	..	633	69
1972	115.6	204.0	8.94	..	..	..	..	639	67
1973	..	..	..	..	7.50	2.60	..	854	..
Plan 1974	115.6	..	11.25	..	14.35	4.00	..	1 348	..
Soviet Union								*d*	*d*
1970	1 977	4 343	623	1 136	309.30	97.05	156.6	45 649	207.1
1971	2 046	4 531	639	1 168	313.17	99.05	169.4	50 547	226.1
1972	2 112	..	656	1 232	312.82	92.81	187.5	54 795	243.9
1973	..	..	..	..	322.00	82.00	225.0	58 000	..
Plan 1974	..	..	..	..	350.70	..	250.2	64 600	..
Byelorussian SSR									
1970	82	..	25	..	..	..	..	929	160.2
1971	85	..	27	..	..	..	..	984	169.4
1972	91	..	29	..	..	..	..	1 025	176.2
Ukrainian SSR									
1970	317	..	81	265	45.7	9.8	25.0	2 165	65.6
1971	329	..	84	275	47.0	10.0	29.9	2 436	73.1
1972	341	..	82	279	46.9	8.6	28.0	2 677	79.9

Sources: national statistics, *CMEA Statistical Yearbook 1972,* plans and plan-fulfilment reports.

[a] Refers to agricultural year.

[b] Kg per hectare of agricultural land.

[c] State and co-operative sector, including food-processing industry.

[d] Gross weight. Data in pure nutrient content for previous years:

	Fertilizer supplies (Thousand tons)	
	Total	*kg/ha of arable land*
1966-1970	10 368	47.0
1971	11 451	51.4
1972	12 530	55.9

(ii) Industry

In the Soviet Union and in most of the east European countries, the rate of industrial expansion accelerated between 1972 and 1973. In the area as a whole, industrial production rose by an estimated 8 per cent, which is nearer to the historical trend than the rates in the two preceding years. The growth of labour productivity was also somewhat faster, employment having risen at an only slightly faster rate than in 1972.

The pattern of growth in output and productivity by countries is set out in table 2.11. Growth was faster than in 1972 in all countries except for Albania and Czechoslovakia, where the rate remained unchanged. The index for eastern Europe (excluding the Soviet Union) showed an improvement from 8.4 to 9.6 per cent which was well above the historical trend. All countries except Albania were able to meet or exceed their annual production target; the Soviet Union and Poland exceeded their targets by a large margin.

Changes in the growth rates of major industrial branches are shown in table 2.14. Faster growth of over-all industrial production was due, in most cases, to an upswing in the growth rate of engineering, chemicals' the light industry and, to a lesser extent, of the food industry. On a weighted basis, the growth of engineering accelerated from a rate of 10.7 per cent to one of 12.1 per cent, the speed-up being greater in the east European countries as a group than in the Soviet Union. The situation was similar in the chemicals industry, light industry and the food industry, except that in the case of the latter it was the Soviet Union which accounted for the gain. The results were less satisfactory in energy and fuel, output of which rose in most cases at a slower rate than in 1972.

Changes in the production of key commodities are shown in the appendix table. In a number of basic materials, growth in 1973 tended to be slower than in 1972. This was true for electricity, coal, mineral fertilizers, plastics and resins. The growth of output of petroleum in the Soviet Union, and of natural gas in general, was faster, while in steel trends were mixed.

Increasing efficiency and an acceleration of scientific and technical progress continued to be the main objectives of industrial policy in the area. A new approach is increasingly being adopted towards imports of licences and know-how as a means of contributing to this process

TABLE 2.11

Global output (A), Employment (B) and Output per man (C) in industry

Country and indicator	*Annual percentage changes*						
	Average 1966-1970	*1971*	*1972*	*1973 Plan* [a]	*1973 actual*	*1974 Plan*	*1971-1975 Plan*
Albania							
A	12.9	11.5	9.5	10.4	9.4	7.6	10.3
B	10.5	4.0	..	..	..	3.8	5.0
C	2.2	7.2	..	..	..	3.7	5.0
Bulgaria							
A	10.9	9.0	8.3	9.9	10.6	11.0	9.6
B	3.9	3.6	2.0	..	2.4	1.0	1.8
C	6.7	5.2	6.2	..	8.0	9.5	7.6
Czechoslovakia							
A	6.8	6.7	6.8	5.7 [b]	6.8	5.8 [b]	6.0
B	1.2	0.1	1.5	0.9 [b]	..	..	0.5
C	5.5	6.6	5.2	4.8 [b]	..	..	5.4
German Democratic Republic							
A [c]	6.5	5.6	6.3	6.5	6.8	6.7	6.0
B	0.3	0.2	0.1	0.8	..	..	−0.2
C	6.2	5.3	6.2	5.7	..	..	6.2
Hungary							
A	6.2	7.0	5.0	5.5-6	7.2	5.5-6.0	5.9
B	2.5	−0.3	−0.8	—	1.3	0.5	1.5
C	3.8	7.0	5.8	5.5-6	5.8	5-5.5	4.3
Poland							
A	8.4	8.3	10.7	9.7 [d]	11.6	11.1 [d]	8.5
B	3.3	3.1	4.0	..	3.2	..	2.9
C	4.9	5.0	6.4	..	8.1	..	5.4
Romania							
A	11.8	11.7	11.7	14.7	14.7	16.7	11.5
B	4.2	6.6	5.5	6.5	5.1*	..	4.0
C	7.3	4.8	5.9	4.0-7.7	9.1	..	7.3
Eastern Europe [e]							
A	8.0	7.7	8.4	8.6	9.6	9.5	7.7
B	2.5	2.3	2.0	..	2.3	..	1.7
C	5.4	5.3	6.3	..	7.1	..	5.9
Soviet Union							
A	8.5	7.7	6.5	5.8	7.4	6.8	8.0
B	2.8	1.4	1.2	0.8	1.2*	1.1	1.1
C	5.5	6.2	5.2	5.0	6.0	5.6	6.8
Byelorussian SSR							
A	12.4	11.8	9.7	7.9	10.2	8.0	9.6
B	5.2	3.7	3.2	1.6	2.5	1.4	..
C	6.8	7.8	6.3	6.2	7.5	6.5	..
Ukrainian SSR							
A	8.3	6.9	6.3	5.4	7.5	7.0	7.4
B	3.1	1.6	1.4	..	1.4	..	..
C	5.0	5.2	4.8	5.0	6.0	..	..

TABLE 2.11 *(continued)*

Global output (A), Employment (B) and Output per man (C) in industry

	Annual percentage changes						
Country and indicator	*Average 1966-1970*	*1971*	*1972*	*1973 Plan a*	*1973 actual*	*1974 Plan*	*1971-1975 Plan*
Eastern Europe and Soviet Union							
A[e]	8.4	7.7	7.0	6.6	8.0	7.6	7.9
B	2.7	1.7	1.4	..	1.5	..	1.3
C	5.6	5.9	5.5	..	6.4	..	6.5

Sources: national statistics, *CMEA Yearbook 1972,* plans and plan-fulfilment reports.

NOTE.— Except where otherwise indicated, output data refer to gross production. The data cover total industry in Czechoslovakia, the German Democratic Republic and the Soviet Union and the State and co-operative industry in the other countries. Productivity figures are generally derived from output and employment data.

[a] Targets set in original plans. The figures shown in the table may differ from those implied in the reported data on the actual change during the year and the percentage of plan fulfilment, either because of plan modifications or because of differences in the base. Original plan figures are usually related to preliminary estimates of the base year: plan-fulfilment reports, as a rule, relate to the final returns of the base year.

[b] Centrally planned industry.

[c] Commodity production.

[d] Sales.

[e] For the method of weighting output and weights used see *Economic Survey of Europe in 1971*, part II, chapter 2, page 67, footnote *d*.

Also, the link between industrial growth and improvement of living standards is being increasingly stressed. Higher labour productivity is to be achieved while making more intensive use of fixed assets and increasing emphasis is being put on the saving of raw material resources. Further improvements in the system of planning and management were undertaken, the most important ones being in the Soviet Union and Poland.

In addition to these common features, there were of course some specific issues varying from country to country. The situation in the industrial labour market was one of these. In Czechoslovakia and the German Democratic Republic, a better utilization of the labour force within enterprises and intra-industry shifts in the employment structure assume a key position in the fulfilment of planned output targets. It was reported for instance that in Czechoslovakia measures adopted in the field of better utilization of the existing labour force contributed one-third of the "total effect that has been gained in the complex of rationalization activity". In the German Democratic Republic, apart from some limited efforts to attract foreign labour,[29] special measures have been taken to re-direct the available labour force into priority branches (energy, chemicals, glass and electrical engineering). In Hungary, industrial employment, after having declined in the two preceding years, rose by 1.3 per cent in 1973, the effect partly of increased incentives to postpone retirements. A similar growth of industrial employment was registered in the Soviet Union, where labour is scarce in some regions but relatively abundant in others. In Poland, for the first time, the demand for female labour was higher than the number looking for jobs; and scarcity of male labour in some industrial regions became more acute. By contrast in Romania there was no evidence of any bottlenecks in labour supply.

THE SOVIET UNION

In 1973, Soviet industry recovered some of the momentum lost in the two preceding years, production rising by 7.4 per cent. The recovery began after the first quarter but it was particularly marked in the second part of the year when the growth rate was not only faster than in the corresponding period of 1972 but also exceeded the comparable 1971 figure:

Soviet industrial production, by quarters

(Percentage change over the corresponding period of the preceding year)

	I	*II*	*III*	*IV*
Average 1966-1970[a]	8.6	8.6	8.2	8.2
1971	8.6	8.4	7.6	6.6
1972	7.0	6.6	6.5	5.9
1973	6.4	7.6	7.9	7.7

[a] Arithmetic average.

Although the yearly gain was significantly greater than envisaged in the annual plan, it still fell short of the five-year target for 1973. The average growth rate in the past three years was 7.2 per cent against an originally planned 7.6 per cent. The position with respect to the long-term production target appears even weaker when viewed against the upswing in the growth rate originally envisaged to take place in the final two years of the plan period. Growth in the years 1974 and 1975 was to average 8.7 per cent; a considerable effort will be required to prevent the lag which has developed from becoming even greater.

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[29] Around 100,000 workers from other east European countries are presently employed in the German Democratic Republic, of which 50,000 are Poles and 20,000 Hungarians.

As the growth of employment changed little, changes in labour productivity were in line with changes in output. In 1973, output per man rose by 6 per cent—from 5.2 per cent in the preceding year and against 5 per cent envisaged in the annual plan. However, when the tasks set forth in the five-year plan are taken as a standard for comparison, the results appear less satisfactory. In 1971-1973, growth has averaged 5.8 per cent against 6.3 per cent in the plan; an acceleration to 8.3 per cent will be needed in order for the plan to be fulfilled.

Industrial profits went up by 12 per cent against 9 per cent in the preceding year. This is a notable result as the improvement was greater than in production, and the gain nearly as high as anticipated in the five-year programme.

As reported in the 1972 SURVEY, one of the factors in the scaling down of the 1973 target was the poor 1972 harvest. The planned growth of consumer-goods output, which was to slow down from the already modest rate of 5.7 per cent to 4.5 per cent, was particularly affected, while the growth of producer-goods output was to slow down from 6.8 to 6.3 per cent. In the event, the acceleration of the growth rate was almost entirely concentrated on the producer-goods sector, output of which rose by 8.2 per cent (table 2.12). The growth of the consumer-goods sector (5.9 per cent), although also faster than planned, was about the same as in the preceding year. The ensuing growth proportion, although in line with the annual plan, has been rather unfavourable and a major change is foreseen for 1974.

Practically all branches increased output at higher rates than in 1972, the acceleration being most pronounced in chemicals and food processing. Output of electricity rose by 6.8 per cent, production reaching 915 billion kWh. However, the gap between the growth of output of electric power and of generating capacity continued to widen as capacity rose by 5.9 per cent.[30] Coal output rose by 2.0 per cent,[31] oil by 7.1 per cent and natural gas by 7.0 per cent, the former figure being about the same and the latter two somewhat higher than the corresponding figures for the preceding year.[32] Output of metallurgy increased by 6 per cent, the same rate as in the previous year. Improvements in quality and variety of products were reported, particularly of rolled steel products. However, supplies remained tight and it was reported that demand was not fully met.

The growth of the chemicals industry accelerated from 9 to 11 per cent. The production of fertilizers grew by 9 per cent and reached 17.4 million tons (in terms of pure content). Output of plastics and synthetic resins rose by 14 per cent and chemical fibres by 11 per cent.

The engineering and metal-working industry increased output by 12 per cent. As in the preceding year, few changes took place in the profile of growth of the various sub-branches as the figures in the text-table below indicate. However, in a more detailed breakdown, important changes are visible, notably a continued acceleration in output equipment for the light industry and automation systems. Output of computer technology, after expanding by 38 per cent in 1972, rose by a further 33 per cent in 1973. Output of passenger-cars rose by 26 per cent, reaching 917 thousand units.[33] In consumer appliances performance was sluggish; output of vacuum cleaners went up 23 per cent but otherwise gains were modest, whereas output of some important products declined.[34] Altogether, output for the consumer market must have risen at a rate which was below that of total engineering output, although as fast as in the preceding year.[35]

The growth rate of light industry went up from 3 to 4 per cent. While much attention was paid to improving the quality and assortment, progress was considered to be inadequate.[36] The food industry increased its growth rate from 3 to 5 per cent. Output of butter increased by 15 per cent, whole milk products by 6 per cent, sugar by 20 per cent. On the other hand, output of vegetable oil declined by 6 per cent and of industrial meat by 5 per cent.

Good results were reported regarding the introduction of new technology,[37] improvement in quality[38] and

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[30] According to the five-year plan, output was to rise at a rate of 7.6 per cent and capacity at a rate of 7.0 per cent. In the past three years, output rose at a rate of 7.2 per cent and capacity at a rate of 5.9 per cent. In 1973, the pride of Soviet hydro-energy construction—Krasnoyarskaya Hydro-power Station—with a capacity of 6,000 MW (12 turbines of 500 MW) was reported to be completed, yielding 21.5 billion kWh. There is no information available on new capacity of atomic power stations. According to the five-year plan directives, the latter was to account for 12 per cent of the planned new power station capacities (some 66,000 MW), representing an increase from 920 MW to some 8,800 MW. Between 1970 and 1972, output of atomic power stations rose by 2.2 times (from 3.5 to 7.7 billion kWh). The 1973 Plan provided for an increase of 52 per cent and the 1974 Plan envisages a rise of 38 per cent.

[31] Mention should be made of a special resolution taken by the CPSU Central Committee to speed up the reconstruction and modernization of the coal industry.

[32] Some more information on the development of the fuel industry is provided in the note at the end of this section on the energy situation.

[33] A high proportion of this output is exported. In 1972, exports amounted to 194.9 thousand units out of a production of 730.1 thousand units. By the end of December 1973, construction of the Togliatti factory on the Volga was completed. The total capacity of 660,000 "Zhiguli" vehicles per year will be reached in July 1974.

[34] Fewer radios and washing machines were produced than in 1972. Output of television sets went up by 5 per cent, refrigerators by 8 per cent and motor-cycles by 4 per cent.

[35] Output of "cultural and amenity goods", a category which includes, in addition to products of the engineering industry, furniture and other household articles, rose by 10 per cent, the same rate as in 1972.

[36] Mention should be made of a resolution of the CPSU Central Committee introducing measures to improve the work of light industry.

[37] About 4,000 models of new types of machines, equipment, apparatus and instruments were set up and serial production of more than 3,700 new items started; 1,500 items of out-dated machinery, equipment, apparatus and instruments were withdrawn from production; 150,000 units of productive equipment were modernized; in various enterprises 9,400 mechanical conveyor belts and about 2,000 automatic lines were set up; 5,000 workshops and production units were transferred to complex mechanization and automation. 423 automated management systems were put into service.

[38] The State mark of quality was awarded to 8,300 articles, raising the total to 13,800.

Soviet Union: engineering and metal-working industry

(Percentage change from preceding year)

OUTPUT BY MINISTERIAL DEPARTMENTS

	1971	*1972*	*1973*	
			Output	*Productivity*
Heavy industry, power and transport, machine-building	7	7	7	6
Construction, road-building and civil engineering	10	10	9	8
Chemicals and petroleum machine-building	10	9	9	8
Metal-tool and tool industry	10	10	11	8
Motor-vehicle industry	16	14	13	10
Tractor and farm machine-building	9	9	12	9
Machine-building for light industry, food industry and household appliances	9	9	12	10
Electrical equipment industry	8	8	9	7
Instrument-making, means of automation and control systems	20	18	18	12

OUTPUT OF SELECTED CATEGORIES OF PRODUCTS

	1971	*1972*	*1973*
Chemical plants	13.8	8.0	11
Equipment for light industry	6.5	9.6	11
Equipment for processing	2.9	9.9	6
Automation systems	10.1	13.3	14
Computers and parts	23.8	38.1	33
Metal-cutting machines	7.7	8.4	10
Forging and pressing machines	11.0	8.8	12

raising the techno-economic indicators of production.[39] The range of goods put out was widened and withdrawal of obsolete lines accelerated.

A reorganization of the industrial management (to be completed by the end of 1975) was decreed in 1973 and this is expected to have a far-reaching effect on the future development of the country. The reform aims at simplifying the management structure and the vesting of major decision-making powers to "middle level" management. The multi-patterned chain of subordination is to be replaced by a relatively simple "two-level", "three-level" and in some cases "four-level" system. The key role in the new set up is to be played by specially created "all-union associations", or "republican associations". These are to take over some of the rights and responsibilities of enterprises, as well as some of those currently exercised by the central administration. The process of amalgamation of enterprises is to be speeded up so that eventually "production associations" will become the basic operative unit.[40] These units will in some cases be responsible directly either to the all-union (union-republic) or to republican ministries (two-level scheme). But more often than not they will be subordinated either to "all-union" or "republican" associations ("three-level" or "four-level" schemes).[41]

A clear-cut delineation of the rights and responsibilities of what will now form the operating units (enterprises

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[39] "Specific" fuel consumption at electric power stations was reported to have been reduced by 1.7 per cent (from 354 to 348 grammes in coal equivalent per kWh), and the utilization of blast furnace capacity increased by 1.2 per cent. Coal mines increased their daily output per sloping face by 8 per cent. In the cement industry, the hourly productivity of revolving kilns went up by 4 per cent and that of mills by 2 per cent. In the textiles industry, the productivity of spinning and weaving machinery was reported to have increased especially fast.

[40] There are at present 1,100 amalgamations containing 3,700 enterprises and 4,500 plants; they account for 12 per cent of industrial sales.

[41] The "three-level" scheme will be the most prevalent. In this system "production associations" combines or enterprises are subordinated to either "all-union" or "republican" associations which, in turn, are subordinated to either all-union (eventually union-republic) or republican ministries. Variants here are cases where "production associations", "combines" or "enterprises" are directly subordinated to republican ministries which, in turn, are subordinated to all-union (union republic) ministries and cases where "production associations", combines and enterprises are subordinated to regional (autonomous) administrations which, in turn, are responsible to republican ministries. In the "four-level" scheme (to be applied only in rare cases) "production associations" are to be subordinated to a "republican association", responsible to a republican ministry, which in turn is to co-operate with a union-republic ministry of the Soviet Union.

"combines" and "production associations") is still to be worked out. These units will apparently lose most of the prerogatives given to enterprises by the 1965 reforms, although they will retain them until a new statute is confirmed.[42] A condition laid down (equally valid for "all-union" and "republican" associations) is that "existing administrative boundaries and departmental subordination of enterprises should not serve as an obstacle to the creation of the new units". Present administrative structures often create artificial barriers among enterprises and these are to be broken down by creating larger units. Apart from bringing decision-making closer to the production unit and thus providing greater flexibility in all fields of activity, the new system is to be instrumental in releasing administrative manpower.

Industrial output in the Byelorussian SSR in 1973 increased by 10.2 per cent, i.e. higher than planned (7.9 per cent) and higher than in 1972 (9.7 per cent). Labour productivity increased by 7.5 per cent as against 6.2 per cent planned. Very high rates were registered in the chemicals and petro-chemical industry (27 per cent), the engineering and metal-working industry (15 per cent).

In the Ukrainian SSR, industrial output grew by 7.5 per cent as against 5.4 per cent planned and 6.3 per cent in 1972. Labour productivity increased by 6 per cent, i.e. more than planned (5 per cent). Higher rates were observed in the electric power industry (9 per cent), chemicals (11 per cent) and engineering (13 per cent), as well as in production of cultural and amenity goods (9 per cent).

EAST EUROPEAN COUNTRIES

In *Albania,* production, after growing in the period from 1966 to 1970 at an average rate of 12.9 per cent, rose by 11.5 per cent in 1971, by 9.5 per cent in 1972 and by 9.4 per cent in 1973. The Plan for 1974 being set at 7.6 per cent, it would need a very significant increase in the growth rate in 1975 for the five-year plan target to be achieved.

A noteworthy feature of the present stage of Albanian development is the slow-down in the growth rate of industrial employment. There was a corresponding significant acceleration in the growth of labour productivity. Whereas throughout the 1960s the growth rate of industrial labour productivity was a modest 2.2 per cent per year, in 1971 it was 7.2 per cent and it would appear that in 1972 and 1973 it was around 4 per cent. The Plan for 1974 foresees a growth rate of 3.7 per cent which, if realized, would put the average growth rate in the present quinquennium a little below the planned figure of 5 per cent.

The shift in the employment/labour productivity growth relationship may well provide an indication that the initial take-off period of growth is over and that Albanian industry has entered a phase where efficiency and costs begin to count as important factors in industrial performance. As long as labour productivity was growing at a modest rate there was obviously little room for improvement of real wages, given the need to raise the rate of investment on the one hand, and to bring about some growth of peasant incomes on the other. In fact, it may have been the desire to increase real wages that prompted the curtailment of the growth of industrial employment, which in turn tended to slow-down the growth of output.

Delays in bringing into operation new capacities may well have been another factor in the slow-down of the industrial growth rate. Indeed, from the little information available, such delays seem to have occurred in a number of branches that are important either for their role as domestic suppliers (electricity, cement) or as earners of foreign exchange (nickel and chromium).

	1970	*1971*	*1972*	*1973*	*1974 Plan*	*1975 Plan* [a]
Electricity (*billion kwh*) . . .	0.94	1.10	1.24	1.40	1.80	2.00
Crude oil (*million tons*) . . .	1.49	1.66	1.92	2.12	2.40	2.70
Nickel ore (*million tons*) . . .	0.40	0.40	. .	0.38	0.40	0.65
Chromium ore (*million tons*) .	0.47	0.50	0.54	0.63	0.71	0.90
Cement (*million tons*)	0.35	0.39	0.43	. .	. .	1.00
Copper (*thousand tons*) . . .	5.6	5.9	. .	6.9	7.0	9.0

[a] Five-year Plan.

In *Bulgaria* the growth rate of industrial production rose from 8.3 per cent in 1972 to 10.6 per cent in 1973, the change reflecting about equally an acceleration in the growth of employment (from 2.0 to 2.4 per cent) and of labour productivity (from 6.2 to 8.0 per cent). The speed-up in the growth rate was concentrated in engineering, wood, light and the food industries. The energy, fuel and metallurgy industries grew at a much slower rate and all the remaining branches expanded at about the same rate as in 1972.

For the first time in the post-war period, electricity output did not increase, coal output declined somewhat and oil imports and refining must have slowed down considerably, judging by the decline in the growth rate of the fuel industry from 29 to 8 per cent. Iron and steel output rose by some 8 per cent as compared with 14 per cent in 1972. The gain mainly reflected improvements in product mix: in terms of volume, output of steel and rolled products did not change much. The growth rate of the engineering industry accelerated from 14 to 19 per cent due to buoyant exports—a rise of some 27 per cent (data for nine months). Production for investment rose at a slower rate than in the preceding year and it would seem that deliveries to the consumer market also rose more slowly. In chemicals, above average growth was registered for synthetic rubber (52 per cent) chemical fibres (28 per cent) and automobile tyres (22 per cent). The planned increase in output of fertilizers did not materialize: instead of rising by 29 per cent, production remained unchanged.

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[42] That is, of course, with the exception of "production associations" combines and enterprises which will not be subordinated to all-union or republican associations but will instead be directly accountable to ministries.

According to a resolution adopted at the November 1973 Party Plenum, a programme of reconstruction and modernization of the food industry is to be undertaken in the period 1974-1980. This will include shifts in the regional distribution of production capacity aiming at the fuller use of existing labour resources and the better utilization of agricultural supplies.[43]

In *Czechoslovakia*, gross industrial production rose by 6.8 per cent, evidently reflecting a much faster expansion of auxiliary production of non-industrial enterprises and of small-scale industrial establishments than of enterprises under central management. Centrally planned industry expanded production by 6.3 per cent, employment rising 0.7 per cent and labour productivity 5.6 per cent. Industrial sales rose by 5.4 per cent. Sales to intermediate outlets rose slightly faster and sales to final outlets slower than in the preceding year; a much faster growth of deliveries for investment having been offset by a slower growth of deliveries to the consumer market and exports (table 2.13).

Branchwise, the profile of growth was almost the same as in the preceding year, only electricity and fuel providing exceptions. Output of electric power rose by 4 per cent, dry weather restricting output of hydro-power plants and thermal plant capacity being insufficient to meet peak-load requirements. Production of coal declined by 3.9 per cent and, although no complete data are available on oil imports, it would appear that the growth of energy supplies hardly exceeded the 1 per cent increase registered in 1972.[44] The chemicals industry remained in the van of industrial expansion with a growth of 9.5 per cent, closely followed by engineering with a growth of 8.3 per cent.

In 1973, a decision was taken to overhaul the wholesale price system, the new prices taking effect from 1 January 1976. The reform aims, among other things, at reducing profit margins,[45] and at aligning prices more closely with costs which in certain cases will eliminate the need for budgetary subsidies. It was reported that at present, due partly to the disproportions introduced by the 1967 price reform and partly to the price freeze in effect since 1969 on most products, differences in profitability (profits as a proportion of costs) are very large. The average level of industrial wholesale prices is to be reduced by 10 per cent with the greatest declines taking place in engineering, construction materials and light industries. The new prices will imply an average ratio of profits to the value of fixed assets and inventories of 7.5 per cent, with significant differentiation by branches.[46]

In the *German Democratic Republic* the industrial growth rate went up to 6.8 per cent in 1973, after accelerating from 5.6 per cent in 1971 to 6.3 per cent in 1972. Commenting on the performance during the past two years, it was officially stated in effect that by succeeding in improving general economic proportions not only was the process of consolidation, begun in 1971, completed but the groundwork laid for a sustained and speedier rate of industrial expansion.[47]

Output of electricity increased by 5.6 per cent, which was faster than planned, capacity rising by 5.8 per cent. Natural gas output apparently rose to some 7 billion m^3 as planned, whereas the volume of crude oil processed rose by some 14 per cent to 14.5 million tons, also in accordance with the plan. However, the plan for brown coal output was not fulfilled. Production was 246 million tons, somewhat less than in 1972.

The situation in the supply of manufacturing parts eased markedly during the year. Output increased satisfactorily due to additions to the labour force and to the commissioning of new plants. But some products remained in short supply and in 1974 attention will again be focused on this area.[48]

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[43] Some steps in this direction were taken in 1973. It was reported that six industrial and agricultural complexes have been united in the "Bulgarska Zahar Corporation", pioneering the vertical integration of processing of vegetable and animal products. Beet is being planted around the country's largest sugar factories. To utilize waste products, cattle farms are being set up nearby. Mechanization of all processes from beet cultivation to production of sweets is being envisaged.

[44] In 1972, coal output remained practically unchanged and imports of oil and oil products from the Soviet Union rose by 8.9 per cent. According to the 1974 Plan, imports of oil and oil products from the Soviet Union will amount to 14 million tons, representing an 8.9 per cent increase over 1972. Since it may be assumed that the 1974 figure represents some advance over that of 1973, the increase in oil supplies in 1973 could not have exceeded that of 1972.

[45] It was stated that the 1967 price reform went too far in raising the price level (an average increase of 29 per cent instead of an envisaged 19 per cent) and that altogether the increase in the level of industrial wholesale prices was as much as 36 per cent between 1967 and 1969.

[46] It is envisaged that profits as per cent of fixed assets and inventories will be as follows:

Mining-total	5-6
Coal and gas	5.9
Oil	5.7
Manufacturing-total	8-8.5
Metallurgy	5.6
Chemicals and rubber	8.5
Engineering	8
Clothing	11
Other	8.5

Source: Ekonomitcheskaya gazeta, No. 37, 6 September 1973.

[47] According to newly-announced long-term development prospectives, industry is to grow at an average rate of 7.2-7.5 per cent in the period 1971-1990, as compared with the planned 6.0 per cent rate in the period 1971-1975.

[48] The output of various intermediate engineering products is to go up by 8 per cent, while the over-all growth of this branch is scheduled at 6.3 per cent.

TABLE 2.12

Growth of producer- and consumer-goods output

(Annual percentage changes)

Country	Average 1966-1970	1971	1972	1973 Plan	1973 actual	1970-1975 Plan
Albania						
Producer goods	15.8	..	..	12	..	12.5 [a]
Consumer goods	9.6	..	..	9	..	7.3 [a]
Ratio	0.61	..	..	0.75	..	0.58
Bulgaria						
Producer goods	11.9	11.8	11.0	..	..	11.0
Consumer goods	9.8	5.8	6.6	..	..	8.5
Ratio	0.82	0.49	0.60	..	..	0.77
Czechoslovakia						
Producer goods	6.9	7.5	7.0	..	..	..
Consumer goods	6.4	6.5	6.1	..	..	..
Ratio	0.93	0.87	0.87	..	..	..
Hungary						
Producer goods	5.8	7.0	3.7	..	..	..
Consumer goods	7.2	7.0	5.6	..	..	..
Ratio	1.24	1.00	1.51	..	..	..
Poland						
Producer goods	9.3	8.4	9.6	..	12*	8.6
Consumer goods	6.6	8.0	12.8	..	11*	8.2
Ratio	0.71	0.95	1.33	..	0.92	0.95
Romania						
Producer goods	13.0	12.1	11.6	..	..	12.4 [a]
Consumer goods	9.8	10.8	11.7	..	..	10.3 [a]
Ratio	0.75	0.89	1.00	..	..	0.83
Soviet Union						
Producer goods	8.6	7.7	6.8	6.3	8.2	7.9
Consumer goods	8.3	7.7	5.7	4.5	5.9	8.2
Ratio	0.97	1.00	0.84	0.71	0.72	1.04

Sources: national statistics, *CMEA Yearbook 1972*, p. 64; plans and plan-fulfilment reports.

NOTE.— Coverage the same as in table 2.11 except for Bulgaria where the data refer to total industry.

a Mean of the planned range of growth.

Developments by branches are shown in the table below. While the data shown in this table are admittedly inadequate, it would appear that the structural changes envisaged during the year were not entirely fulfilled.[49] As reported in the SURVEY last year, one of the features of the 1973 Plan was the envisaged faster growth of consumer-goods than of producer-goods output. In fact, however, faster growth took place primarily in producer-goods branches, in particular general machinery. The light industry performed well but food-processing industry output rose at a lower rate than in 1972. Output of consumer durables was also apparently not up to the original version of the plan, judging by the limited information available.[50] The increase in deliveries of consumer goods to the home market was, however, greater than in the preceding year (6.2 per cent as compared with 3.3 per cent), and nearly reached the planned rate (6.5 per cent).

In 1974 output of consumer goods by enterprises under industrial ministries is planned to increase by 5.4 per cent as against the 7.4 per cent target for total commodity output. The corresponding figures in the 1973 Plan were 7.0 and 6.8 per cent respectively; and while the 1974 Plan for total consumer-goods output may well be higher than the figure allotted to ministerial departments, it

German Democratic Republic: industrial growth by branches

(Annual percentage change)

Sector	1971	1972	1973
Electricity and fuel	1	1	3
Metallurgy	8	6	8
General machine building (transport equipment)	5	6	9
Electro-technical and electrical engineering	10	10	11
Chemicals	6	8	9
Construction materials	7	4	7
Light industry (except textiles)	5	7	8
Textiles	4	6	3
Food	6	6	4

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[49] However, according to the plan-fulfilment report all ministerial departments were able to fulfil or over-fulfil their plan targets. This refers to targets which were revised during the year.

[50] Output of television sets, refrigerators and washing machines rose between 5 and 7 per cent, or about the same rate as in 1972.

would seem that the planned proportions are less favourable for the consumer-goods sector than those that were incorporated into the 1973 Plan.[51]

In *Hungary*, the growth of industrial output accelerated from 5 to 7.2 per cent, a somewhat faster rate than anticipated in the annual plan (5.5-6 per cent). However, industrial sales continued to expand at a rate of 6 per cent, whereas the growth of sales to final outlets actually declined from a rate of 10 to 7 per cent (table 2.13). The decline was due to a slower expansion of deliveries for exports. Deliveries to the consumer market expanded at a rate of 8 per cent, and a slight increase was registered in sales for investment following the sharp decline in 1972.

The over-fulfilment of the output plan was associated with a higher than envisaged growth of employment. After the 0.8 per cent decline in 1972, industrial employment rose by 1.3 per cent. A greater reduction than in 1972 was reported in the use of materials for specific outputs. Significant progress was also reported in the improvement of quality and the modernization of production.[52]

The upswing in the industrial growth rate reflected a faster growth of mining, metallurgy, construction materials, wood-processing industries and, above all, of light industry. Output of electricity rose by 8.1 per cent, marking the second year of fast growth (8.8 per cent in 1972 as against a 5.4 per cent average in 1966-1970). Coal output, after declining for several years, rose by 4 per cent, and while crude petroleum output remained stationary, imports (excluding oil products) rose from 6.1 to 6.6 million tons. Output of natural gas rose by 18 per cent to 4.8 billion m³.

The growth rate of the engineering industry continued at a steady rate of around 6 per cent, reflecting off-setting tendencies in various sections: a slow-down in the growth rate of output of electric machinery and appliances, telecommunications and vacuum engineering and a faster growth in general machinery and metal products sections.[53] The growth of the chemicals industry was also steady at the impressive rate of 11 per cent; production of synthetic fibres rising by 46 per cent. The wood industry accelerated its growth rate from 4 to 10 per cent reflecting re-conversion and modernization of a number of large plants. In the light industry all sections turned out extremely good results, the growth rate of the textiles and leather industries rising from 4-6 to 10 per cent and the growth of the clothing industry accelerating from 4 to 17 per cent. The high level of both domestic and foreign demand were contributory factors.

Among important institutional changes is the introduction of a so-called block wage system in coal mining, electric power and some sections of the food industry. Wages are permitted to rise to a certain level without regard to the enterprise performance.

1973 marked the second year of very fast industrial growth in *Poland*. Starting in 1971 with a rate of 8.3 per cent, which was fairly close to the historical trend, expansion accelerated in 1972 and again in 1973, the growth rate rising from 10.7 to 11.6 per cent. Industrial sales also grew faster, going up by 11.6 per cent against the previous year's figure of 10.0 per cent. The growth of employment slowed, and labour productivity went up by 8.3 per cent, the highest rate recorded in more than a decade.

It is not easy to identify fully the factors behind the favourable performance of Polish industry in the past two years. Among the factors influencing industrial growth one can point to the favourable weather conditions in the past three years with their beneficial effect on agricultural production, the availability of foreign credits making possible the increase of imports of raw materials and engineering equipment, the relative abundance of labour resources, at least in a number of less developed regions, the influence of the socio-political climate and the outlook for the improvement of living standards. The last two factors began to play a role with the inauguration of the New Economic Policy which gave priority to the improvement of living con-

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[51] Attention should be drawn, however, to the vast increases in investment in the consumer-goods industry which took place in 1973, the effect of which will be felt in later years (enterprises under ministries, percentage increase over 1972):

Coal and energy	9
Ore mining, metallurgy and potash	9
Light industry	51
Local and food industries	23
Enterprises of the chemicals and metal-working industries producing consumer goods	40

[52] The following figures, designed to measure progress in the modernization of engineering output are of some interest (as percentage of total):

	As percentage of total					
	New products		*Products not more than 3 years old*		*Products abandoned in the preceding year*	
	1971	*1972*	*1971*	*1972*	*1971*	*1972*
Machine and machinery building industry	8.0	8.9	36.5	35.3	1.6	0.8
Production of vehicles	8.3	4.1	28.8	29.1	1.5	4.3
Production of electric machines and appliances	6.5	5.2	27.5	27.0	0.9	0.2
Telecommunications and vacuum engineering	13.7	3.9	47.4	43.1	14.0	10.8
Precision engineering	6.2	8.0	49.5	47.0	0.6	1.0
Iron and metal mass products	7.1	4.4	32.0	22.0	0.4	0.3

[53] In order to reduce the existing large differences in efficiency between various enterprises, a programme was begun in 1973 to modernize a number of large but relatively inefficient plants. The programme was financed by a special budgetary appropriation since, in the existing competitive situation, the high cost enterprises are unable to carry out the programme by their own resources or bank credit (the latter are the usual resources available in Hungary for reconstruction and modernization).

ditions for the population. Accordingly, the intention was to reduce the rate of investment and to shift the structure of investment in favour of branches where quick effects could be obtained in terms of consumer supplies.

The emphasis on consumer supplies did not result in a slow-down in other sectors; in fact, the contrary occurred. Reserves were released in all areas, allowing for an acceleration in the growth of consumer-goods output while maintaining or even accelerating the growth of producer-goods output. This latter occurred particularly in 1973 when, although the light and the food industries continued to expand at record rates, the producer-goods sector showed better results than in the preceding year.

The unprecedented increase in money incomes of the population may have created some inflationary pressure, which in turn has tended to influence adversely the quality and assortment of consumer supplies: this was manifest in some shortages on the one hand and an excessive increase in stocks of some finished products on the other. While increased motivation has been credited with the completion of a number of investment projects ahead of schedule, there are, of course, technical limits to the shortening of construction periods. The maintenance of the present high rate of industrial investment may also prove to be increasingly difficult. Finally, although exports have been increasing satisfactorily, their rise is insufficient to sustain the growth rate of imports, thus raising the possibility of a ceiling to the growth of import supplies.[54]

During 1973, 195.8 million tons of coal were extracted in Poland, which is 3.7 per cent more than in the preceding year.[55] Electricity output grew by 10.2 per cent, the investment completion plan having been implemented before schedule: about 1600 MW of new power generating capacity has been installed, raising the total by 9.9 per cent. Oil processing reached 10.9 million tons of crude, a rise of 8.9 per cent.[56] Metallurgy performed well, mainly in the non-ferrous metals section: output of rolled products rose 7.1 per cent and that of electrolytic copper 19.0 per cent.[57] The highest growth rates were registered in the engineering industry (15.5 per cent). Particular emphasis on the development of the wood-processing industry showed up with an 18.1 per cent rise in the output of furniture. In the light industry most of the progress was made in artificial fabrics—an increase of 10.5 per cent—and knitted fabrics (an eight-fold rise). In the food industry above-average growth was registered in meat (13.2 per cent), butter (12.3 per cent) and alcoholic drinks (10.6 per cent).

New principles of planning and management were introduced in 24 big industrial organizations (i.e. associations, combines and large multi-plant enterprises) employing above 1 million persons (about 18 per cent of industrial employment) and generating about 20 per cent of industrial output.[58] In 1974 a further 25 organizations, including the whole chemicals industry, will work on the new system, so that about 40 per cent of output will be covered. One of the principal features of the new mechanism is the link between the growth of the wage fund and that of "value added" defined as the difference between the sales value and the sum of material costs, turnover taxes and repayments of investment credits. The wage fund can also increase as a result of a rise in exports, quality improvements, introduction of new products, etc. On the other hand, the premium fund for the managing staff is generally connected with an increase in profits of the economic organizations. It is expected that wider introduction of the new economic system will become a factor contributing to more rational use of human and material resources and will mobilize new reserves for more intensive development.

The 14.7 per cent rise of industrial output in *Romania* was the highest attained in a decade. The rapid pace of expansion was supported by high rates of investment completions in 1972,[59] a continued large increase in the labour force and a rise in imports of raw materials which appeared to have been at least as high as the rise in production. On the demand side, buoyant exports and a high rate of growth of the population's money income contributed to the good performance. Labour productivity rose by some 9 per cent, also above the historical trend.

Almost all major branches improved their performance, the growth of the engineering and the chemicals industries being the most impressive. However, electricity output rose less than in 1972 (7.6 per cent against 10.0 per cent) and although the growth rate of the fuel industry has accelerated this was because of an increase in oil refining; only moderate progress was made in the production of basic fuels.[60] Altogether production of primary energy rose by some 4.5 per cent. The 1974 Plan envisages about the same growth rate [61] whereas the growth of primary energy consumption is to amount to 7.6 per cent. Even so, "a more judicious use of energy resources" has been put forward as "a fundamental question of present development". The Plan therefore calls for a reduction in the specific use of energy to be expressed in the saving of 2 million tons of oil and 4 billion kWh of electricity.

Some re-organization of the management system took place during the year, aiming at a simplification of the

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[54] It should be noted that, although coal export prices have been rising, the over-all increase in export prices fell short of the rise in import prices, resulting in a deterioration in the terms of trade.

[55] Output of hard coal was 156.6 million tons and of brown coal 39.2 million tons. Coal exports went up from 36.8 to 40.8 million tons.

[56] Imports of oil and oil products rose as much as 18.9 per cent.

[57] Production rose from 131 thousand tons to 156 thousand tons, permitting a rise in net exports from 18 to 25 thousand tons.

[58] Economic results achieved by piloting organizations during nine months of 1973 are considered to have been very good: sales increased by 15.9 per cent, of which sales to the domestic retail market rose by 18.2 per cent and those for exports by 17.9 per cent; "value added" grew by 24.8 per cent, and output per man by 10.8 per cent.

[59] Industrial investment put into operation rose from 42.9 billion lei in 1971 to 49.3 billion lei in 1972.

[60] Coal output rose by 7.1 per cent, oil by 1.1 per cent and natural gas by 5.5 per cent. In 1972, the corresponding figures were 10.1, 2.4 and 4.3 per cent respectively.

[61] Output of coal is to rise 10.1 per cent, crude oil 0.3 per cent, and natural gas 3.7 per cent.

TABLE 2.13

Changes in the volume of industrial sales, by type of outlet

Country	*Percentage of total in 1972*	*Annual percentage change*			
		1970	*1971*	*1972*	*1973*
Czechoslovakia					
Total industrial sales	100.0	9.1	6.6	5.5	5.4
Of which:					
Intermediate outlets	64.0	10.2	6.7	5	5.3
Final outlets	36.0	7.3	6.4	6.4	5.6
Of which:					
For personal consumption	15.7	4.8	3.5	5.4	4.8
Investment	4.3	7.5	6.2	5.9	11.1
Exports	12.6	10.5	10.2	8.2	5.8
Hungary					
Total industrial sales	100.0	8	7	5	6
Of which:					
Intermediate outlets	52.6	6	7	1	5
Final outlets	47.4	10	6	10	7
Of which:					
For personal consumption	22.2	13	5	6	8
Investment	3.9	6	5	−10	2
Exports	21.3	7	8	17	8

structure and a closer co-operation between central organs and production units. The number of ministerial offices dealing with various branches of production was reduced, and a number of enterprises merged into larger units.[62] Apart from streamlining organization, the measures resulted in a considerable release of administrative staff who could be directed into production, research design and similar activities.[63]

(iii) The energy situation

Although the area remained a net exporter of fuel in 1973, there were also signs of a tightening of the energy situation in the centrally planned economies. As the year drew to a close, Bulgaria, Czechoslovakia, Poland and Romania introduced energy conservation measures in varying degrees of severity.[64] The Soviet Union energy balance was described by the Soviet Prime Minister as "tense" although "incomparably better than that of the West". In almost all countries, the economic plans for the current year emphasize the need to reduce fuel consumption and in some countries programmes were elaborated to speed up the development of indigenous energy supply.

The tightening of the energy situation in east European countries is undoubtedly related to the developments on world oil markets. As can be seen from table 2.15, whereas the Soviet Union continues to be the major supplier to most of these countries, imports from world markets have tended to play an increasing role in recent years. In 1972, the share of the latter was relatively small in Czechoslovakia and Poland, but reached the order of 25 per cent in Bulgaria and the German Democratic Republic. Romania, unlike the other east European countries, derives all its oil imports from sources other than the Soviet Union.

There is, of course, no certainty at the time of the preparation of this report as to the extent to which such imports have so far actually been affected. But whether or not short cuts were marginal, it must be kept in mind that the energy balance in a number of these countries was already strained even before the oil crisis. This was the result of a sharp slow-down in expansion, and in some cases a decline, in indigenous output aimed at a rise in economic efficiency and an improvement in the structure of energy consumption (tables 2.16 and 2.17).

In the Soviet Union, the straining of the energy balance was, of course, due to different factors. One of these was a somewhat slower than planned growth of energy output. Another, and a more important one, was that there was a faster expansion of internal requirements than was provided for in the plan. This expansion of domestic needs occurred in the face of a slower increase than was planned in over-all economic activity, so there

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[62] The number of enterprises and similar economic entities was redduce from 5,400 to 3,600.

[63] A total of 102 thousand employees was reported to have been re-directed, according to skill and training, into various other fields of activity.

[64] Romania was the first country to institute an oil conservation programme. This included rationing petrol for passenger vehicles, reduction in speed limits, introduction of restrictions on heating and lighting (including that in industrial workshops) and a general 30 per cent reduction in the use of electricity by households. Bulgaria introduced a rationing system for passenger-vehicles and a reduction in speed limits. The use of fuel oil in administrative buildings was also restricted by 15 per cent and steps were taken to restrict the use of diesel oil in agricultural enterprises. In Poland, prices of gasoline were increased by 100 per cent and a speed limit of 80 km per hour for all vehicles was instituted. State-owned passenger-cars and small trucks and buses were ordered to reduce their petrol consumption by 30 per cent and were prohibited from driving on Sundays. Czechoslovakia introduced a reorganization of working hours and the working week to reduce peak loads in electric power stations.

TABLE 2.14

Gross output of major branches

(Annual percentage changes)

Sector and country	*Average 1966-1970*	*1971*	*1972*	*1973 Plan*	*1973 actual*	*1974 Plan*
Electricity and heat						
Bulgaria	13.3	6.6	5.7	..	0.8	..
Czechoslovakia	7.3	5.0	9.0	..	5.4	..
German Democratic Republic	5.7	0.6	..	..	..	..
Hungary	8.2	8.0	7.0	8.1	9.0	..
Poland	8.6	8.7	11.2	..	11.1	..
Romania	16.7	12.0	10.7	..	8.2	..
Eastern Europe [a]	8.6	5.9	..	..	..	..
Soviet Union	9.0	8.5	8.0	..	8.0	..
Byelorussian SSR	13.7	21.2	14.0	7.0	11.0	13.2
Ukrainian SSR	9.0	9.0	6.0	8.0	9.0	..
Total area [a]	8.9	7.8	..	..	..	..
Fuel						
Bulgaria	15.2	25.2	29.0	..	7.8	..
Czechoslovakia	5.0	5.5	4.1	..	..	..
German Democratic Republic	5.0	7.2	..	..	..	..
Hungary	3.7	2.0	−4.0	5.0	6.6	..
Poland	6.4	5.1	6.4	..	..	.
Romania	6.1	3.7	2.8	..	6.6	.
Eastern Europe [a]	6.0	6.2	..	..	..	.
Soviet Union	5.3	5.8	5.0	..	6.0	..
Byelorussian SSR	23.4	26.3	10.0	..	10.0	..
Ukrainian SSR	2.3	4.0	4.0	..	3.0	..
Total area [a]	5.6	5.9	..	..	..	..
Metallurgy						
Bulgaria	9.8	10.1	10.8	..	..	..
Czechoslovakia	5.1	5.3	5.0	4.4	..	4.4
German Democratic Republic	5.6	7.6	6.2	..	8.0	..
Hungary	5.6	7.0	2.0	5.3	7.0	4.5
Poland	6.3	8.9	8.2	..	11.1	..
Romania	12.4	7.0	8.6	..	..	..
Eastern Europe [a]	6.8	7.3	6.9	..	..	..
Soviet Union	6.8	6.0	6.0	..	6.0	..
Byelorussian SSR	..	..	..	..	..	..
Ukrainian SSR	2.4	4.0	3.0	..	5.0	4.0
Total area [a]	6.8	6.4	6.3	.	..	..
Engineering and metal-work						
Bulgaria	15.6	17.0	14.3	19.2	19.0	21.0
Czechoslovakia	9.3	8.5	7.8	7.6	8.3	7.5
German Democratic Republic	8.2	6.4	7.2	..	9.6	..
Hungary	7.8	8.0	5.0	6.5	5.6	7-8
Poland	12.3	12.4	13.0	..	15.5	..
Romania	15.8	15.8	15.8	..	20.7	..
Eastern Europe [a]	10.4	9.7	9.7	..	12.2	..
Soviet Union	11.7	11.3	11.0	10.4	12.0	10.4
Byelorussian SSR	14.9	14.8	14.0	12.0	15.0	11.0
Ukrainian SSR	12.0	11.0	12.0	10.0	13.0	..
Total area [a]	11.3	10.9	10.7	..	12.1	..
Chemicals and rubber						
Bulgaria	21.4	7.9	12.4	22.0	11.1	25.0
Czechoslovakia	9.8	11.3	9.8	8.6	9.5	7.7
German Democratic Republic	6.9	4.4	7.8	..	9.0	..
Hungary	11.6	13.0	11.0	10.1	10.9	9.0
Poland	13.1	8.9	12.2	..	13.9	..
Romania	15.6	15.2	13.6	..	18.3	..
Eastern Europe [a]	10.4	8.3	10.4	.	11.7	..

TABLE 2.14 *(continued)*

Gross output of major branches

(Annual percentage changes)

Sector and country	*Average 1966-1970*	*1971*	*1972*	*1973 Plan*	*1973 actual*	*1974 Plan*
Chemicals and rubber (concluded)						
Soviet Union	11.7	10.4	9.0	8.5	11.0	9.8
Byelorussian SSR	27.0	25.9	20.0	21.0	27.0	13.6
Ukrainian SSR	13.4	12.0	10.0	8.0	11.0	10.5
Total area [a]	11.3	9.6	9.5	..	11.3	..
Construction materials						
Bulgaria	10.1	8.8	12.6	..	7.9	..
Czechoslovakia	6.9	7.9	4.5	8.0	6.5	..
German Democratic Republic	5.8	7.0	4.2	..	7.0	..
Hungary	5.2	3.0	3.0	4.3	6.7	6.0
Poland	6.7	6.5	8.6	..	..	..
Romania	13.0	14.1	12.4	..	6.7	..
Eastern Europe [a]	7.4	8.0	7.4	..	..	..
Soviet Union	8.3	8.5	7.0	..	8.0	..
Byelorussian SSR	10.7	8.7	8.0	9.0	10.0	..
Ukrainian SSR	8.4	9.0	6.0	8.0	6.0	6.2
Total area [a]	8.0	8.4	7.1	..	..	..
Wood and paper						
Bulgaria	7.8	10.5	4.4	..	8.2	..
Czechoslovakia	5.8	5.4	6.4	..	6.4	..
German Democratic Republic	8.2	5.6	..	..	..	..
Hungary	4.7	6.3	5.5	..	10.0	..
Poland	5.4	5.7	7.2	..	10.5	..
Romania	7.9	5.0	..	4.7	..	..
Eastern Europe [a]	6.8	5.8	..	..	..	..
Soviet Union	5.6	5.4	5.0	..	6.0	..
Byelorussian SSR	9.2	8.1	9.6	..	..	..
Ukrainian SSR	5.2	5.1	5.0	..	..	..
Total area [a]	5.9	5.5	..	..	..	..
Light industries						
Bulgaria	10.1	6.5	6.3	..	11.3	8.3
Czechoslovakia	5.0	6.0	6.3	..	6.0*	..
German Democratic Republic	4.7	4.0	6.0	..	5.0	..
Hungary	4.4	4.0	6.0	5.5	10.8	..
Poland	7.3	6.1	9.3	..	9.1	..
Romania	10.7	12.7	12.8	..	16.1	..
Eastern Europe [a]	6.4	6.2	8.1	..	8.9	..
Soviet Union	8.4	6.7	3.0	4.0	4.0	4.0
Byelorussian SSR	11.9	8.9	7.0	3.0	5.0	4.4
Ukrainian SSR	12.5	7.0	4.0	4.0	5.0	5.5
Total area [a]	7.7	6.5	4.7	..	5.6	..
Food processing						
Bulgaria	5.9	6.4	4.2	5.9	7.4	6.9
Czechoslovakia	3.9	5.7	4.7	..	4.9	4.6
German Democratic Republic	4.0	6.4	6.1	..	4.0	..
Hungary	4.7	6.0	5.0	3.7	4.6	7.8
Poland	3.0	7.3	11.0	..	9.9	..
Romania	6.5	8.7	7.1	..	9.7	..
Eastern Europe [a]	4.2	7.2	7.3	..	7.1	..
Soviet Union	5.8	5.3	3.0	2.0	5.0	7.6
Byelorussian SSR	8.7	7.2	6.0	3.0	7.0	6.1
Ukrainian SSR	5.6	3.0	4.0	..	5.0	7.3
Total area [a]	5.4	5.8	4.2	..	5.6	..

Sources: national statistics, *CMEA Yearbook 1972*, plans and plan-fulfilment reports.

NOTE.— Coverage same as in table 2.11 except for Bulgaria where the figures refer to State industry only and the 1973 figures for Czechoslovakia which refer to centrally-planned industry. The 1973 figures for Bulgaria refer to eleven months.

[a] For methods of weighting output and weights used, see *Economic Survey of Europe in 1971*, part. II, chapter 2, page 73, footnote *a*.

TABLE 2.15

Exports and imports of crude oil and oil products — 1965, 1970-1972

(In millions of tons)

Country	*Exports*				*Imports*			
	1965	*1970*	*1971*	*1972*	*1965*	*1970*	*1971*	*1972*
Bulgaria								
Total	0.09	0.15	0.07	0.06	3.37	8.77	10.10	10.64
Soviet Union	..	..	..	..	3.37	7.05	7.96	7.95
Czechoslovakia								
Total	1.11	0.81	0.94	1.02	6.87	10.89	12.50	13.63
Soviet Union	..	..	..	..	6.36	10.47	11.81	12.87
German Democratic Republic								
Total	1.68	1.31	0.99	2.33	5.69	10.44	11.10	15.39
Soviet Union	..	..	..	..	5.43	9.34	10.38	11.48
Hungary								
Total	0.81	1.21	0.69	1.38	2.77	5.32	5.70	6.78
Soviet Union	..	..	..	..	2.49	4.76	5.06	5.53
Poland								
Total	1.03	1.31	1.07	1.72	5.46	9.43	10.16	12.03
Soviet Union	..	..	..	..	4.70	8.64	9.55	11.07
Romania								
Total	5.60	5.35	5.35	5.07	—	2.29	2.86	2.87
Soviet Union	..	..	..	..	—	—	—	—
Eastern Europe								
Total	10.32	10.14	9.11	11.58	24.16	47.14	52.41	61.35
Soviet Union	..	..	..	..	22.07	40.26	44.75	48.89
Soviet Union								
Total	64.42	95.75	105.10	107.03	1.90	4.60	6.60	9.10
Eastern Europe	22.07	40.26	44.75	48.89	1.90	0.50	0.90	0.80
Other socialist countries [a]	6.80	10.24	10.74	11.38	—	4.10	5.70	8.20
Rest of the world	35.55	45.35	49.61	46.76	—			

[a] Including Yugoslavia, the Democratic Republic of Viet-Nam, the Democratic People's Republic of Korea, Cuba and the Mongolian People's Republic.

was a considerably faster increase than was envisaged in energy requirements per unit of output.

Whether in anticipation of higher energy requirements per unit of output, or of an accelerated growth rate of exports, the current Soviet Five-year Plan provided for a somewhat faster growth of total energy output than was attained in the preceding quinquennium. Thus, fuel production from all sources[65] was to increase between 1970 and 1975 by 33.7 per cent against the 29 per cent increase between 1965 and 1970. By contrast, the growth of national income and industrial production was to be slower, the rate of the former declining from 7.7 to 7.1 per cent and that of the latter from 8.5 to 8.0 per cent.

In the event, the expansion of the Soviet Union's energy output was less than planned, but hardly to an extent that would notably alter basic plan proportions. The short-fall was greatest in natural gas, output of which rose in the three years 1970-1973 at an average rate of 6.6 per cent against a planned rate of 9.9 per cent. Output of petroleum rose practically as planned—6.9 per cent against 7 per cent—and output of coal was well up to the planned level. If the growth by the remaining, less important, energy sources (peat, oil shale) is taken into account the deficit may have amounted to some 27 million tons of standard fuel equivalent, or less than 2 per cent of production in that year. Total energy supply rose, in the three years, at a rate of about 5 per cent, i.e. at about the same rate as in the preceding five years.

On the other hand, the deceleration in the growth rate of national income and industrial production was greater than planned. Thus, industry which consumes around 70 per cent of the total energy supply, expanded in the three years by an average of 7.2 per cent. Transportation, the second largest energy user, probably did not increase production more than planned. The expansion of the main energy-using sectors did not allow for the release of any additional supplies for export. Total energy exports rose in the years 1971 and 1972 at a rate of 5.2 per cent, as compared with the rate of 7.4 per cent in the years 1966-1970. Moreover, energy imports doubled in these two years, the effect being that net exports of energy in 1972 were no higher than in 1970.[66]

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[65] Excluding hydro-electric power.

Turning to the prospects for the current year, it does not seem likely that any significant easing of tension can be expected. Although in some east European countries the declining trend in the output of indigenous energy sources may be reversed, this is not likely to have any great effect on the growth of import requirements. In the Soviet Union, the 1974 Plan provides for an acceleration in the growth rate of output of natural gas, but not of oil. The growth of total energy output will apparently be maintained but, given the continued fast growth of domestic demand which is expected, there is not much scope for an acceleration of energy exports. And, although the expansion of oil exports to the east European countries may be expected to be maintained at the rate of some 10 per cent (the average for the last three years), this will, apparently, not be sufficient to compensate for any loss of imports from other geographical areas.

In assessing the general prospects, some special features may be kept in mind relating to the effect of developments on world oil markets on the centrally planned economies. Generally speaking, governments in the centrally planned economies—with their existing well elaborated central distribution channels—may be better placed than those in the west to restrict "non-essential" energy uses and thus to protect the productive system from the impact of shortage in energy supply. However, the uses of this type are relatively smaller than those found in the west. An especially important factor in eastern Europe is also the greater concentration in the use of oil in particular sectors. The effect of this is that even changes in supply, which appear to be minor in terms of their impact on over-all availabilities, may well be important to the point of creating considerable bottlenecks in the sectors which are most heavily involved.

Of course, countries are not all equally sensitive to constraints in the expansion of oil imports. Given the considerable substitutability between various energy sources, even in the short run countries which at the present moment are less dependent on oil as a source of supply are obviously better off than those where oil accounts for a high proportion of energy consumption. The relevant data presented in table 2.17 indicate that the share of oil in total primary energy requirements ranges, currently, among the east European countries from some 10 per cent in Poland to some 40 per cent in Bulgaria. It should be noted that these proportions are generally lower than those found in western Europe. Even the Soviet Union, which is the world's second largest oil producer, derives only about 35 per cent of its energy requirements from oil.[67] Although coal has been losing its importance everywhere, it still remains by far the largest source of energy in Czechoslovakia, the German Democratic Republic and Poland. Natural gas accounts for more than one-half of energy consumption in Romania and it has become relatively important in the Soviet Union and Hungary. Hydro-electric and nuclear power do not account for more than 2 per cent of energy requirements [68] in any of the countries.

The relative dependence on energy imports in general and on oil imports in particular is another important factor to be considered. Among the east European countries only Poland is, at the moment, a net exporter of energy (table 2.18). Romania, once an important exporter, has now reached a point of balance between imports and exports, whereas the remaining four countries are large importers. Bulgaria meets around 60 per cent of its energy requirements from imports. In Hungary, the corresponding figure is around 35 per cent, in the German Democratic Republic 26 per cent and in Czechoslovakia around 20 per cent. The ranking of countries is almost the same if the role of oil alone is considered (table 2.19). However, Poland, which is a net importer, follows Romania which remains a net exporter. Czechoslovakia and the German Democratic Republic have about an equal dependence on oil imports.

While the scarcities currently shown in a number of countries may well be partly the consequence of dislocation in the sources of supply, it is doubtful whether, in the longer-term context, it will be through the problem of actual availability of supplies that the effect of recent developments in the world market will be felt. The consequences of the price increases are more important, and not only with regard to that part of imports which is obtained on world markets but also regarding that part which is obtained within the area since, while the problem of price relationships between goods traded in the area is undoubtedly complex, governments may find it difficult, even if desirable, to isolate these from those prevailing on world markets. Any particular change between relative raw materials and finished product prices on these markets cannot fail to have significant

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[66] No data are available for developments in 1973.

[67] That is if the consumption of coal, oil, natural gas, hydro- and atomic-power is considered. The proportion is, apparently, closer to 30 per cent if account is taken of the use of peat, oil shale and wood (see footnote to table 2.17).

[68] Nuclear energy is currently produced only in the Soviet Union and the German Democratic Republic in quantities which are not only negligible in relation to total energy requirements but also insignificant in relation to total electricity produced.

TABLE 2.16

Growth of major primary energy sources, production and consumption, 1966-1973

(Basic data expressed in coal equivalent)

(Annual percentage changes)

Country	*Production*				*Apparent consumption a*		
	1966-1970	*1971*	*1972*	*1973*	*1966-1970*	*1971*	*1972*
Bulgaria							
Total	3.8	−8.4	−0.6	. .	. .	4.1	1.8
Coal	3.0	−7.6	1.0	−1.1	5.3	−1.6	0.1
Petroleum	7.8	−8.8	−18.2	. .	19.2	15.4	4.9
Gas	45.4	−30.9	−32.6	. .	45.4	69.1	67.4
Hydro-electricity	1.5	0.7	−3.3	. .	0.7	16.4	26.8
Czechoslovakia							
Total	1.5	2.8	−0.6	. .	. .	4.8	1.1
Coal	1.5	3.0	−0.5	−3.9	1.3	2.9	−0.7
Petroleum	1.1	−4.5	−1.6	. .	11.1	14.3	8.9
Gas	4.5	1.5	−4.5	. .	21.4	12.5	9.1
Hydro-electricity	−3.8	−27.0	4.8	. .	8.2	−1.4	−8.7
German Democratic Republic							
Total	0.9	3.2	−1.9	. .	. .	2.6	0.3
Coal	0.5	0.6	−5.5	−1.1	0.4	0.9	−5.0
Petroleum	30.3	0.0	0.0	. .	18.1	10.7	28.0
Gas	56.1	131.4	73.7	45*	55.8	73.2	65.5
Hydro-electricity	9.8	0.0	−1.9	. .	19.4	0.4	20.8
Hungary							
Total	1.3	1.0	−1.7	. .	3.0	5.2	−2.0
Coal	−2.2	−1.9	−5.9	3.9	−2.4	−0.9	−7.5
Petroleum	1.8	0.4	1.0	0.0	11.1	14.9	5.8
Gas	25.6	6.8	10.3	17.5	22.9	12.3	4.8
Hydro-electricity	4.1	9.1	8.3	. .	20.5	27.6	1.3
Poland							
Total	4.2	3.9	4.2	. .	4.7	2.8	5.4
Coal	3.5	3.9	4.1	3.7	3.3	2.0	4.8
Petroleum	4.5	−6.3	−12.2	. .	11.6	11.0	12.3
Gas	30.3	3.8	8.5	. .	28.7	3.8	3.7
Hydro-electricity	15.7	1.7	0.8	. .	33.2	−4.9	−6.5
Romania							
Total	6.0	5.2	4.4	. .	8.6	7.0	3.8
Coal	11.2	2.6	6.4	. .	11.6	4.7	0.7
Petroleum	1.2	3.1	2.4	1.1	7.9	9.0	4.8
Gas	7.5	6.7	4.3	5.5	7.6	6.8	3.7
Hydro-electricity	22.5	62.0	63.3	. .	−10.6	25.0	19.9
Eastern Europe							
Total	3.0	3.1	1.6	. .	4.3	4.0	2.4
Coal	2.3	2.2	0.4	. .	2.0	1.7	−0.1
Petroleum	1.7	2.2	1.6	. .	13.0	12.4	10.9
Gas	12.0	10.0	9.5	. .	13.1	7.8	5.5
Hydro-electricity	5.1	6.6	23.0	. .	10.8	12.2	16.1
Soviet Union							
Total	5.2	5.4	5.2	. .	4.9	5.3	5.5
Coal	1.0	2.7	3.5	2.0	0.9	2.6	2.6
Petroleum	7.7	6.9	6.6	7.1	7.7	9.0	6.6
Gas	9.3	7.3	5.6	7.0	9.4	9.0	6.6
Hydro-electricity	8.9	1.4	−2.5	. .	8.9	0.7	−0.2

TABLE 2.16 *(continued)*

Growth of major primary energy sources, production and consumption, 1966-1973

(Basic data expressed in coal equivalent)

(Annual percentage changes)

Country	*Production*				*Apparent consumption* [a]		
	1966-1970	*1971*	*1972*	*1973*	*1966-1970*	*1971*	*1972*
Soviet Union and Eastern Europe							
Total	4.6	4.8	4.3	..	4.7	5.1	4.6
Coal	1.5	2.5	2.1	..	1.4	2.2	1.4
Petroleum	7.4	6.7	6.4	..	8.5	7.5	8.9
Gas	9.7	7.8	6.3	..	10.0	9.5	6.9
Hydro-electricity	7.4	6.7	6.4	..	9.2	2.6	1.9

NOTE.— The coefficients used to convert the various sources of energy into coal equivalents are those given in *World Energy Supplies*, UN *Statistical Paper Series J*, No. 16. Exceptions are the production figures for the Soviet Union which are officially reported in standard units.

[a] Production plus imports and minus exports.

repercussions also on the terms by which such goods are traded within the area.[69]

It is in this connexion that one may consider for illustrative purpose the implications which a given rise in the price of oil may have on the various countries. In 1972, with an average price per ton of imports of oil and oil products from the Soviet Union ranging between 17 and 20 dollars,[70] the net import bill of Bulgaria is estimated at some 190 million dollars; that of Czechoslovakia at 310 million, of the German Democratic Republic at 220 million, of Hungary at around 110 million and of Poland at around 205 million. Unfortunately, no comparable data are available in current prices which would permit the expression of these figures in terms of the national income equivalent for the various countries in any precise manner. But rough calculations indicate ratios ranging from some 0.5 per cent in Poland to some 2 per cent in Bulgaria. In terms of the three-fold increase in world market prices which took place recently, this would mean an additional burden ranging from the equivalent of some 1 per cent of national income in Poland to 4 per cent in Bulgaria.

Oil and oil products

	Imports as per cent of total imports		*Exports as per cent of total exports*
Bulgaria	7.5	Romania	1.9
Czechoslovakia	6.6	Soviet Union	12.0
German Democratic Republic	3.8		
Hungary	3.5		
Poland	3.8		

The balance-of-payments effect can be determined with greater precision. Using the same figures and adding similar estimates for the two oil-exporting countries, the Soviet Union and Romania, the following figures are obtained (1972) (see the text-table below).

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[69] It must be noted that in principle, price levels, in particular those of raw materials, have been fixed in the area to relate to those prevailing on world markets. Adjustments to these levels are usually made at five-year intervals in connexion with the fixing of delivery quotas over medium-term plan periods, although annual adjustments are also apparently not excluded. The following table provides information on the average price of Soviet exports of oil and oil products to the east European countries in recent years:

	Roubles per ton (f. o. b.)		
	1970	*1971*	*1972*
Bulgaria	14.58	14.61	14.93
Czechoslovakia	16.05	16.22	16.36
German Democratic Republic	13.40	13.60	14.09
Hungary	16.25	16.64	16.96
Poland	16.55	16.55	16.47

Source: Vneshnyaya Torgovlya, 1971 and 1972.

In appraising the changes it ought to be kept in mind that, apart from changes in unit prices, they also reflect changes in the product mix.

[70] See preceding footnote, rouble figures for 1972, converted at a rate of 1.206 into US dollars.

The estimated impact of a three-fold increase in oil prices ranges from an over-all import equivalent of an additional 7 per cent in Hungary to an equivalent of 15 per cent in Bulgaria. In the Soviet Union, the gain would be equivalent to an estimated 24 per cent of its exports.

There is, of course, no certainty as to what the actual effect of the recent change in world market prices would be on exchange relationships within the area. World oil prices may decline from present levels and/or international forms of co-operation may be found which may lighten the burden imposed by the higher prices on the importing countries. Faced with a greatly increased fuel bill and significantly changed relationships between the cost of imports and the cost of development of indigenous sources of supply, governments may opt not only for energy-saving patterns of production but also for a substantial departure from the traditional pattern of change in the structure of energy sources.

TABLE 2.17

Percentage distribution of total primary energy by source[a]

Country	*Production*				*Apparent consumption*[b]			
	1965	*1970*	*1971*	*1972*	*1965*	*1970*	*1971*	*1972*
Bulgaria								
Coal	95.2	91.7	92.5	94.0	74.1	61.8	58.5	57.5
Oil	2.2	2.7	2.8	2.2	24.2	35.5	39.3	40.6
Gas	0.7	3.9	2.9	2.0	0.5	1.9	1.3	0.8
Hydro and nuclear	1.9	1.7	1.8	1.8	1.2	0.8	0.9	1.1
Czechoslovakia								
Coal	97.2	97.1	97.3	97.3	89.7	81.8	80.3	78.9
Oil	0.3	0.3	0.3	0.3	7.8	14.3	15.6	16.8
Gas	1.7	2.0	2.0	2.0	1.6	3.0	3.2	3.5
Hydro and nuclear	0.8	0.6	0.4	0.4	0.8	0.9	0.9	0.8
German Democratic Republic								
Coal	99.5	97.2	94.8	91.3	93.9	86.9	85.4	80.9
Oil	0.1	0.5	0.5	0.5	5.8	12.0	13.0	16.5
Gas	0.2	2.0	4.5	8.0	0.2	0.8	1.4	2.2
Hydro and nuclear	0.1	0.3	0.2	0.2	0.1	0.3	0.3	0.3
Hungary								
Coal	82.3	68.9	67.5	64.6	76.1	60.6	57.1	53.9
Oil	10.9	11.2	11.2	11.5	17.2	24.9	27.2	29.4
Gas	6.8	19.9	21.2	23.8	6.1	13.2	14.1	15.1
Hydro and nuclear	0.0	0.0	0.1	0.1	0.6	1.4	1.7	1.7
Poland								
Coal	98.1	95.3	95.3	95.2	92.4	86.4	85.7	85.2
Oil	0.4	0.4	0.3	0.3	5.5	8.0	8.7	9.2
Gas	1.4	4.2	4.2	4.4	2.1	5.4	5.5	5.4
Hydro and nuclear	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.1
Romania								
Coal	14.7	18.1	17.6	17.9	21.4	23.3	22.8	22.1
Oil	37.9	29.2	28.6	28.1	23.5	23.7	24.1	24.4
Gas	47.1	52.2	52.9	52.6	54.9	53.0	52.8	52.8
Hydro and nuclear	0.3	0.6	0.9	1.4	0.2	0.1	0.3	0.8
Eastern Europe								
Coal	86.8	83.1	82.4	81.4	82.7	73.8	72.1	70.3
Oil	5.7	5.3	5.2	5.2	9.9	15.4	16.6	18.0
Gas	7.2	11.2	12.0	12.9	7.1	10.4	10.8	11.1
Hydro and nuclear	0.3	0.4	0.4	0.4	0.4	0.5	0.5	0.6
Soviet Union								
Coal	44.9	36.5	35.6	35.0	51.1	42.2	41.1	40.0
Oil	37.7	42.4	43.0	43.6	29.1	33.4	33.7	34.7
Gas	16.3	19.7	20.1	20.1	18.5	22.9	23.7	24.0
Hydro and nuclear	1.1	1.3	1.3	1.3[c]	1.2	1.5	1.4	1.4

TABLE 2.17 *(continued)*

Percentage distribution of total primary energy by source [a]

Country	*Production*				*Apparent consumption* [b]			
	1965	*1970*	*1971*	*1972*	*1965*	*1970*	*1971*	*1972*
Eastern Europe and Soviet Union								
Coal	56.7	48.7	47.7	46.7	61.0	52.1	50.6	49.1
Oil	28.7	32.8	33.4	34.0	23.1	27.6	28.3	29.4
Gas	13.7	17.4	17.9	18.3	14.9	19.1	19.9	20.4
Hydro and nuclear	0.9	1.1	1.0	1.1[c]	1.0	1.2	1.2	1.1

NOTE.— See note to table 2.16.

[a] Excluding miscellaneous minor solid fuels. For the Soviet Union, production of energy from all sources was as follows:

	In millions of tons of coal equivalent				*Percentage distribution*			
	1965	*1970*	*1971*	*1972*	*1965*	*1970*	*1971*	*1972*
Total	976.6	1237.5	1300.9	1369.9	100.0	100.0	100.0	100.0
of which:								
Coal	412.5	432.7	444.2	459.8	42.2	35.0	34.1	33.6
Oil	346.4	502.5	537.3	572.6	35.5	40.6	41.3	41.8
Gas	149.8	233.5	250.6	264.6	15.3	18.9	19.3	19.3
Hydro-electric	10.0	15.3	15.5	15.1	1.0	1.3	1.2	1.1
Nuclear	—	0.4	0.5	1.0	—	0.0	0.0	0.1
Peat	17.0	17.7	16.7	21.2	1.7	1.4	1.3	1.5
Oil shale	7.4	8.8	9.5	9.9	0.8	0.7	0.7	0.7
Wood	33.5	26.6	26.6	25.7	3.4	2.1	2.0	1.9

[b] Production plus imports and minus exports.

[c] Including atomic energy equal to 0.1 per cent of total energy production.

TABLE 2.18

Total net imports of energy, 1965-1972

Country	*Millions of tons of coal equivalent*				*In per cent of apparent consumption*			
	1965	*1970*	*1971*	*1972*	*1965*	*1970*	*1971*	*1972*
Bulgaria	7.56	16.60	19.29	19.99	35.8	50.7	56.6	57.6
Czechoslovakia	7.42	14.38	17.15	18.84	9.3	15.4	17.5	19.1
German Democratic Republic	14.82	21.62	23.14	26.86	16.0	21.2	22.1	25.6
Hungary	7.17	9.41	10.82	11.17	25.0	29.5	32.3	34.0
Poland	−16.73	−18.95	−18.76	−20.31	−15.1	−13.7	−13.1	−13.5
Romania	−6.78	−1.40	−0.62	−0.67	−18.0	−2.3	−1.0	−1.0
Eastern Europe	13.46	41.66	51.02	55.88	3.6	9.1	10.7	11.4
Soviet Union	−100.39	−139.62	−144.03	−138.87	−12.3	−13.4	−13.0	−11.8
Eastern Europe and Soviet Union	−86.93	−97.96	−93.01	82.99	−7.3	−6.5	−5.9	−5.0

TABLE 2.19

Net imports by source of energy, 1970-1972

(As percentage of apparent consumption)

Country	*1970*	*1971*	*1972*
Bulgaria			
Total net import	50.68	56.58	57.60
Coal	16.52	18.28	17.62
Petroleum	34.20	38.23	39.65
Natural gas	—	—	—
Electricity	−0.04	0.08	0.33
Czechoslovakia			
Total net import	15.80	17.53	19.05
Coal	−0.30	−0.29	−0.23
Petroleum	14.03	15.36	16.58
Natural gas	1.62	1.92	2.25
Electricity	0.45	0.55	0.45
German Democratic Republic			
Total net import	21.17	22.08	25.55
Coal	9.38	9.41	9.25
Petroleum	11.62	12.54	16.16
Natural gas	0.12	0.07	0.04
Electricity	0.05	0.06	0.11
Hungary			
Total net import	29.52	32.25	33.99
Coal	10.51	10.29	10.07
Petroleum	16.75	19.43	21.36
Natural gas	0.92	0.92	0.89
Electricity	1.33	1.62	1.67
Poland			
Total net import	−13.65	−13.13	−13.49
Coal	−22.12	−22.59	−23.46
Petroleum	7.59	8.27	8.90
Natural gas	0.88	1.19	1.09
Electricity	0.01	−0.01	−0.02
Romania			
Total net import	−2.33	−0.96	−1.00
Coal	4.84	4.60	3.97
Petroleum	−6.16	−4.63	−4.05
Natural gas	−0.52	−0.31	−0.30
Electricity	−0.50	−0.61	−0.62
Eastern Europe			
Total net import	9.08	10.69	11.43
Coal	−2.21	−2.11	−2.82
Petroleum	10.54	11.85	13.27
Natural gas	0.62	0.79	0.82
Electricity	0.13	0.16	0.16
Soviet Union			
Total net import	−13.36	−13.04	−11.82
Coal	−1.96	−1.74	−1.48
Petroleum	−11.34	−11.59	−10.84
Natural gas	0.01	0.36	0.58
Electricity	−0.06	−0.08	−0.08
Eastern Europe and Soviet Union			
Total net import	−6.51	−5.88	−4.99
Coal	−2.04	−1.85	−1.88
Petroleum	−4.66	−4.51	−3.75
Natural gas	0.19	0.49	0.65
Electricity	0.00	−0.01	−0.01

NOTE. — See note to table 2.16.

3. INVESTMENT

(i) Plans and plan fulfilment

Gross fixed capital formation was close to the planned level last year in the Soviet Union, the German Democratic Republic and Czechoslovakia. Investment was slightly less than planned in Hungary and much less in Romania. Gross fixed capital formation was higher than planned in Bulgaria and substantially higher in Poland (tables 3.1 and 3.3).[71]

The increase in gross fixed capital formation over the year in the *Soviet Union* was modest in relation to both previous five-year plan periods and the first two years of the current five-year plan (about 4 per cent). The annual plan foresaw a reduction in the rate of investment expansion, mainly in order to speed up the completion of centralized State investment.[72] The number of new investments to be started in the annual plan was 460 in contrast to 700 in the preceding year. Investment resources were to be channelled increasingly towards investment completions which were planned to rise much faster than actual investment.

The two main objectives of the plan were attained. Not only was a big improvement in investment completions obtained (see table 3.2), but adjustment processes necessary for the future acceleration of investment were also induced.

Czechoslovakia and the *German Democratic Republic* reached high rates of investment expansion (8.5 per cent). The investment plan of Czechoslovakia aimed at maintaining investment activity at the high level of the last four years while simultaneously increasing stress on modernization and rationalization and obtaining further improvement in investment completions. About Kčs 5 billion, or almost 10 per cent of investment in industry and construction, were devoted to modernization and comprehensive rationalization in these sectors. The number of simultaneously implemented projects was reduced and the starting of new investment was banned as long as preparatory work on the project remained uncompleted. Both current investment activity and investment completions were well maintained.

Plan objectives in the German Democratic Republic were similar to those in Czechoslovakia with the stress also on large increases in investment, on substantial modernization and rationalization, the improvement of the efficiency of investments and on obtaining a rising proportion of completions. However, while in Czechoslovakia this policy represented a consolidation of the prevailing situation, the policy in the German Democratic Republic aimed at and to a certain extent succeeded in giving a new expansionary momentum to investment.

Hungary, by contrast, was another country which aimed at redressing the existing imbalance in the investment sector. The planned limitation of investment expansion for the second year running was necessary because of the extremelv sharp rises throughout the 1966-1970 Plan as well as in 1971 (the first year of the current five-year plan). The policy here also concentrated on modernization and on increasing the share of completions. The high shares achieved for investment completions and the accumulation of increased financial and material reserves indicate real possibilities for the early resumption of investment expansion at accelerating rates.

The investment plan of *Bulgaria* also aimed at stabilization rather than fast expansion, but actual investment increased rapidly for the second year in succession (9.3 per cent and 8 per cent respectively). The increase of investment in the first three years of the current five-year plan nevertheless has fallen back to roughly half of what it was in the preceding quinquennium (from 12.5 to 6.3 per cent).

Total investment in *Romania*, by contrast, increased by about 5 per cent and was well below its ambitious target and below the extremely high rates of the 1966-1970 period (with the exception of 1969) and the first two years of the 1971-1975 Plan. There was also a marked deceleration in the rate of investment completions.

The investment performance in 1973 as in 1972 has shown quite exceptional features in *Poland*. Investment was planned to increase at high rates in both years (by about 10 per cent a year), but both the more modest 1972 Plan and the more ambitious 1973 Plan were surpassed considerably and investment rose at spectacular rates in both years (about 23 per cent a year). The annual increase of investment in the past three years of the 1971-1975 Plan was thus more than double the rate of the previous five-year period (about 18 per cent as against about 8 per cent).

The productive effort required for sustaining investment growth is considerable in all east European countries. Gross fixed capital formation as a proportion of net material product in 1973 ranged from about 30 per cent

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[71] The terms "gross fixed capital formation" and "gross fixed investment" are used in this text alternatively as referring to the process of creating fixed capital in the sense of equipment, constructions and material goods of a similar nature (instruments, etc.).

[72] *Planovoie Khozyaistvo*, No. 7, 1973. A shift away from decentralized investment was considered necessary for the reason that centralized State investment in the material sphere lagged behind the annual plans by 4.5 billion roubles in 1971 and 1972, whilst decentralized investment in the same years exceeded the plans by 27 per cent or 6 billion roubles.

TABLE 3.1

Gross and net fixed capital formation, capital formation ratios and incremental capital-output ratios

Country and period	*Billions of national currency units*			*Ratio of capital formation to NMP*		*Incremental capital output ratios*	
	Net material product	*Fixed capital formation*					
		Gross	*Net*	*Gross*	*Net*	*Gross*	*Net*
Bulgaria							
1966-1970	8.6	3.1	..	35.9	..	4.1	..
1971	10.6	3.6	..	34.2	..	4.8	..
1972	11.4	4.0	..	35.0	..	5.1	..
Plan 1973	12.3	4.1	..	33.3	..	4.1	..
1973	12.3	ca.4.3	..	34.8	..	4.0	..
Plan 1974	13.5	..	..	..	..	..	..
1971-1973	11.4	4.0	..	34.7	..	4.7	..
Plan 1971-1975	12.6	ca.4	..	31.7	..	3.9	..
Czechoslovakia							
1966-1970	248.8	77.5	33.2	31.1	13.3	4.5	1.9
1971	294.7	93.5	44.5	31.7	15.1	6.2	3.0
1972	312.2	101.6	48.2	32.5	15.4	5.5	2.6
Plan 1973	328.1*	109.4*	..	33.3*	..	6.5*	..
1973	328.4*	110.1*	..	33.5*	..	6.4*	..
Plan 1974	345.5*	..	..	..	..	..	..
1971-1973	311.8*	101.7*	..	32.6*	..	6.0*	..
Plan 1971-1975	327 *	104.5*	..	32.0*	..	6.3*	..
German Democratic Republic							
1966-1970	98.2	27.2	..	27.7	..	5.3	..
1971	113.6	33.0	..	29.0	..	6.4	..
1972	120.1	34.3	..	28.6	..	4.9	..
Plan 1973	127.0	37.0	..	29.1	..	5.1	..
1973	126.4	37.2	..	29.4	..	5.3	..
Plan 1974	133.2	39.2	..	29.5	..	5.9	..
1971-1973	120.0	34.8	..	29.0	..	5.5	..
Plan 1971-1975	124.6	34.9	..	28.0	..	5.7	..
Hungary							
1966-1970	231.5	76.2	36.0	32.9	15.6	4.8	2.3
1971	276.7	104.3	54.0	37.7	19.5	5.8	3.0
1972	290.7	102.9	58.1	35.4	20.0	6.9	3.9
Plan 1973	303.8	105	..	34.6	..	7.7	..
1973	310.1	102.7	56.8	33.1	18.3	4.9	2.7
Plan 1974	325.6	109	..	33.5	..	6.7	..
1971-1973	292.5	103.3	56.3	35.3	19.2	5.8	3.1
Plan 1971-1975	308	108-110*	..	35.5*	..	6.2	..
Poland							
1966-1970	715.6	200.4	..	28.0	..	4.7	..
1971	855.4	245.3	..	28.7	..	3.5	..
1972	941.7	302.7	..	32.1	..	3.2	..
Plan 1973	1016	341.7	..	33.6	..	4.3	..
1973	1036	372.3	..	35.9	..	3.6	..
Plan 1974	1134	416.2	..	36.7	..	3.9	..
1971-1973	944	306.8	..	32.5	..	3.5	..
Plan 1971-1975	972	291	..	29.9	..	4.3	..

TABLE 3.1 *(continued)*

Country and period	*Billions of national currency units* *Net material product*	*Fixed capital formation* *Gross*	*Net*	*Ratio of capital formation to NMP* *Gross*	*Net*	*Incremental capital-output ratios* *Gross*	*Net*
Soviet Union							
1966-1970	248.1	70.8	37.3	28.5	15.0	3.7	1.9
1971	301.5	88.0	53.7	29.2	17.8	5.2	3.2
1972	313.3	94.3	55.5	30.1	17.7	7.7	4.5
Plan 1973	332 *	97.6	..	29.4	..	4.9	..
1973	338 *	98.0	..	29.0	..	3.6	..
Plan 1974	362 *	104.2	..	28.8	..	4.1	..
1971-1973	317.6*	93.4	..	29.4	..	5.1	..
Plan 1971-1975	352.4	100.2	..	28.4	..	4.0	..

Sources: national statistical yearbooks; *CMEA Statistical Yearbook*; plans and plan-fulfilment reports.

NOTES.— Net fixed capital formation is defined as completed gross fixed capital formation *less* depreciation allowances.

Unless otherwise stated, all value data in tables in this section are at constant prices. Price bases are as follows: Bulgaria: 1962; Czechoslovakia: 1 January 1967; German Democratic Republic: 1967; Hungary: 1968; Poland: 1971; Soviet Union: 1969.

The amounts in national currency units are annual averages.

When the range of values is given, the arithmetic mean is taken for the calculation of investment ratios and incremental capital-output ratios.

The data for 1973 are preliminary.

in the Soviet Union and the German Democratic Republic to about 35 per cent or more in Poland and Bulgaria. This measure, of course, is greatly affected by the price structure in each country and, in particular, by the relationship between the prices of producer goods and consumer goods, but nevertheless indicates rough orders of magnitude and is particularly relevant for inter-temporal comparisons.

In the first three years of the current five-year plan, the ratio of gross fixed capital formation to net material product increased sharply in Czechoslovakia and very sharply in Poland. The increase was less marked in the Soviet Union, the German Democratic Republic and Romania. In Hungary after two years of extremely high ratios it fell in 1973 to the average level of 1966-1970, while in Bulgaria it was about the same or slightly lower.

With a sustained drive towards investment expansion bottlenecks within the investment sector are frequent in east European countries. The plan-fulfilment reports, practically without exception, refer therefore to various shortcomings in the investment sector. The preparation of projects is often too slow and shortcomings in the supplying industries are also frequent. Sustained expansion in the construction sector requires continuous measures of organization and the removal of capital and labour bottlenecks; any neglect in these respects leads to a slowing down of completions. In Czechoslovakia the average completion period is 4.5 years, which is considered to be 15 per cent more than the norm established by the Communist Party Congress.[73] Completion of major investment projects in Hungary sometimes takes seven years instead of the five years considered as the rule.[74] In the other countries official criticism is less specific but is frequently focused on both the length of completion periods and the delays in attaining full rates of production.

Current statistics of investment completions in 1973 are available for four countries (table 3.2). The performance in respect of investment completions is improving in the two countries, the Soviet Union and Hungary, where investment was restrained in the last one or two years. They also show an improvement in Czechoslovakia in spite of a very fast investment expansion. By contrast completions are increasingly lagging behind investments in Romania where a slow-down of investment expansion is already noticeable. With the speeding up of investment the rate of completions is declining in Poland for the three years for which this information is available. The performance in respect of completions shows important fluctuations in Bulgaria. (No statistics are available on investment completions for the German Democratic Republic). The performance in respect of new capacity is nevertheless remarkable in most east European countries.

The relationship between current capital inputs and output, as indicated by incremental capital-output ratios shown in table 3.1,[75] considerably improved (in comparison with the 1966-1970 period) in Poland, where a rising investment effort was accompanied by even higher rates of output growth. Investment and production policies here seem to have succeeded in overcoming the comparative inefficiencies of a preceding period. Incremental capital-output ratios in 1973 are about the same as in the preceding five-year plan period in the Soviet Union, the German Democratic Republic, Hungary and Bulgaria; by contrast there was a sharp increase in Czechoslovakia.

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[73] *Hospodářské Noviny*, No. 32, 1973.

[74] *Figyelö*, 8 August 1973.

[75] For a comment on use and limitations of this coefficient see *Economic Survey of Europe in 1968*, chapter II, section 5, p. 146, footnote 151

TABLE 3.2

Fixed capital brought into operation and change in the stock of uncompleted investments

(Billions of national currency units and percentage shares)

			Fixed capital brought into operation				*Changes in the stock of uncompleted investments*	
	Gross fixed capital formation							
Country and year	*Total*	*Industry*	*Total*	*As percentage of total gross fixed capital formation*	*Industry*	*As percentage of gross fixed capital formation in industry*	*Total*	*As percentage of total gross fixed capital formation*
Bulgaria								
1970	3.5	1.6	3.2	89.8	1.4	88.7	0.4	10.2
1971	3.6	1.6	2.7	74.7	1.0	59.1	0.9	25.3
1972	3.8	1.6	3.4	89.8	1.2	75.8	0.4	10.2
1973	4.3	1.8	..	..	..	..	..	..
Czechoslovakia								
1970	88.5	33.6	82.2	92.9	32.5	96.7	6.3	7.1
1971	93.5	35.1	86.9	93.0	32.7	93.2	6.6	7.0
1972	101.6	36.1	93.0	91.5	33.9	93.9	8.7	8.5
1973	110.1 *	..	105.0 *	95.4 *	..	..	5.1 *	4.6 *
German Democratic Republic								
1970	32.8	17.1	..	..	..	..	..	..
1971	33.0	17.6	..	..	..	..	..	..
1972	34.3	18.7	..	..	..	..	..	..
1973	37.2	20.4	..	..	..	..	..	..
Hungary								
1970	93.5	31.6	87.7	93.8	28.5 *	90 *	5.8	6.2
1971	104.3	35.6	91.8	88.0	31.5 *	89 *	12.5	12.0
1972	102.9	35.7	98.5	95.7	31 *	87 *	4.4	4.3
1973	102.7	35.3	99.2	96.6	..	..	3.5	3.4
Poland								
1970	207.1	80.4	201.6	97.3	82.3	102.4	5.5	2.7
1971	245.3	98.1	214.3	87.4	81.6	83.3	30.9	12.6
1972	302.7	132.0	263.0	86.8	112.9	85.5	40.0	13.2
1973	372.3	..	..	..	..	..	..	..
Romania [a]								
1970	74.8	38.0	69.0	92.2	35.5	93.5	5.8	7.8
1971	82.6	42.9	73.7	89.2	35.9	83.9	8.9	10.8
1972	91.7	49.3	77.2	84.2	37.6	76.2	14.5	15.8
1973	(91.2) [b]	..	(73.7) [b]	80.8 [b]	..	..	(17.5) [b]	19.2 [b]
Soviet Union								
1970	82.1	29.5	77.8	94.8	..	..	4.3	5.2
1971	88.0	31.0	82.7	93.9	..	..	5.3	6.1
1972	94.3	33.1	85.4	90.6	..	..	8.8	9.4
1973	98.0	..	92.2	94.1	..	..	5.8	5.9

Sources and notes: as for table 3.1.

NOTE.— Data for Bulgaria and Poland are at current prices and for Romania at 1963 prices. The change in the stock of uncompleted investments is the difference between gross fixed capital formation and fixed capital brought into operation.

[a] State and co-operative sector.

[b] Centrally planned State investment.

(ii) Distribution patterns

The distribution of gross fixed investment between sectors and branches (tables 3.3 and 3.4) tends to change very slowly, although more marked signs of change are observable in the 1971-1975 Plans. The main reason for this stability of the distribution pattern, apart from the inertial effect of previous plan patterns, is the continuing pressure of conflicting priorities by which demands for an extension of the investment share of one sector are counteracted by demands for the extension or maintenance of the share of another. This conflict of priorities is strong between the conflicting demands for basic energy and raw material development, for technical progress in processing industries, and for the quantitative and qualitative improvement of consumer supplies and housing.

However, in spite of these sharply conflicting investment requirements in the domestic context, there are now clear signs of an increasing specialization between countries in the development of new production capacities. Previously, inter-country co-operation placed relatively more emphasis on the effective utilization of existing capacity.

The investment programme of the 1971-1975 Plan of the Soviet Union incorporates a very large shift from the non-material sphere towards the material sphere with substantially increased shares for industry (from 36 to 42 per cent), agriculture (from 17 to 22 per cent), and transport (from 9 to 10 per cent). The transition to this new investment pattern has progressed slowly for the industrial sector but quickly for agriculture and transport. The distribution within industry, however, already clearly reflects the new priorities attached to technically advanced industries such as engineering and chemicals, and to preponderantly consumer-goods branches such as wood, pulp and paper, and textiles, clothing and footwear.

The investment pattern in the five-year plans of Poland and Romania show, within unchanged shares for the material and non-material spheres, large extra allocations to industry (in Poland from 39 to 43 per cent and in Romania from 50 to 52 per cent). The share of the industrial sector in the first years of the plan actually increased considerably in Poland, but less sharply and only in the second year in Romania. The shift within industry toward engineering and building materials was similar in both countries. In Romania this shift was also combined with increased priority for chemicals while in Poland there was an additional shift within industry towards light and food industries. In Poland allocations were also increased for transport and in Romania for construction and trade.

The allocation pattern of gross fixed investment shows similar characteristics in two countries which are relatively poor in fuel and raw material resources, viz. the German Democratic Republic and Hungary. In its five-year plan actually the German Democratic Republic decided to reduce the share of investments in the material sphere, with a particularly heavy impact on allocations to industry, transport and trade. In Hungary the planned reduction of extra allocations to the material sphere was less pronounced: an expansion of the share of industry and construction was provided for and a considerable extra allocation to transport. In the process of implementation the share of industry in the German Democratic Republic, instead of being reduced as planned, was sharply increased [76] while in Hungary it was more or less unchanged. In Hungary there was an increase instead of a reduction in allocations for agriculture. The share of agriculture in the German Democratic Republic declined substantially below the planned level.

The industrial investment pattern in Hungary and the German Democratic Republic was similar. Priority was given to chemicals and light industry in both countries, but in the German Democratic Republic the shift was primarily towards heavy chemicals, electric power, primary fuels and ore mining while in Hungary industrial investments were channelled mainly towards light chemicals and building materials.

In Czechoslovakia and Bulgaria the planned shift in the composition of investment was from the material towards the non-material sphere. Within the former, allocations were generally increasing more than planned in both countries in transport and construction. These increased allocations for construction are obviously called for by the substantial increase of investment (both planned and achieved) in the non-material sphere particularly in housing.

The change in the pattern of industrial investment in Czechoslovakia is in favour of fuel and power, building materials and light industries. Both the planned and the actual pattern in Bulgaria shows shifts towards engineering, building materials, wood, pulp and paper.

(iii) Construction and machinery

In comparison with the pattern in the preceding five-year period, the material composition of gross fixed capital formation in the Soviet Union, Czechoslovakia and Hungary remained comparatively stable in the first years of the current five-year plan. The construction and machinery components, as in the preceding plan period, grew at roughly the same rates in the Soviet Union, Czechoslovakia (where previously there had been a slight increase in the share of machinery and equipment), and in Hungary (where previously there had been a rise in the share of construction). In the last three years in Poland, Romania and, less pronouncedly, in Bulgaria the share of machinery and equipment rose very sharply (table 3.5).

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[76] The strong pressure of competing demands for a sharp increase of industrial investment constitutes the background to the following policy statement by the Prime Minister (*Neues Deutschland*, 20 December 1973):

> "New investment projects will henceforth only be considered if proof has been produced that the building work and supplies of equipment required are guaranteed. This will make it possible to complete important projects at an earlier date and to raise the share of investments for rationalization purposes in total investments in all material spheres from 51.8 per cent in 1973 to 54.1 per cent in 1974. This is a substantial increase considering the great volume of investments for expansion required in the basic industry, notably to enlarge the energy basis and produce chemical and metallurgical raw materials."

TABLE 3.3

Gross fixed capital formation by main sectors of the material and non-material spheres

Country and period	Annual percentage changes (total of all sectors)	Percentage distribution								
		Material sphere							Non-material sphere	
		Total	Agriculture	Industry	Construction	Transport	Trade	Other	Total	Of which: housing
Bulgaria										
1966-1970	12.5	78.4	17.0	45.9	3.2	9.2	3.1	—	21.6	9.5
1971	1.7	75.6	16.1	43.9	3.3	9.4	2.9	—	24.4	10.4
1972	9.3	75.0	16.2	41.0	3.6	11.2	3.0	—	25.0	10.1
Plan 1973	3.0	..	..	..	..	..	..	..	..	..
1973	8	74.5	16.3	41.6	4.0	10.8	2.8	—	24.5	10.3
1971-1973	6.3	75.4	16.2	42.1	3.7	10.5	2.9	..	24.6	10.3
Plan 1971-1975	6.4	66.0	13.5	40.0	2	9	1.5	—	34	..
Czechoslovakia										
1966-1970	7.2	73.6	11.9	39.0	3.5	13.9	5.2	0.1	26.4	14.6
1971	5.7	70.4	10.7	37.6	3.5	13.8	4.6	0.2	29.6	17.7
1972	8.7	69.3	10.7	35.6	3.8	14.7	4.3	0.2	30.7	17.7
Plan 1973	7.7 *	..	..	..	..	..	..	..	..	..
1973	8.4 *	..	10.5	..	..	..	..	..	..	..
Plan 1974	5.2 *	..	..	..	..	..	..	..	..	..
1971-1973	7.6 *	..	10.5	..	..	..	..	..	..	..
Plan 1971-1975	5.6 *	..	10.7	39.6	..	15.4	..	..	..	17.6
German Democratic Republic										
1966-1970	9.9	83.3	14.1	51.0	3.1	9.1	5.2	0.8	16.7	10.1
1971	0.6	83.2	13.3	53.4	2.6	8.5	4.5	0.9	16.8	9.6
1972	3.9	83.0	12.6	54.6	2.5	8.3	4.1	0.8	17.0	10.9
Plan 1973	9.0	..	..	56.0	..	..	..	..	..	..
1973	8.5	82.1	11.9	54.8	2.4	8.1	4.0	0.9	17.9	7.7
Plan 1974	5.3	..	14.6	53 *	..	..	..	..	..	..
1971-1973	4.3	82.7	12.6	54.3	2.5	8.3	4.2	0.9	17.3	10.9
Plan 1971-1975	2.1 [a]	80 *	15.2 [b]	45.6	4.7	8.5	4.5	1.5 *	20.0	11
Hungary										
1966-1970	11.3	70.4 [c]	17.9	35.3	2.2	11.9	3.1	..	29.6 [c]	..
1971	11.6	71.4 [c]	19.8	34.1	3.1	10.6	3.8	..	28.6 [c]	..
1972	−2.0	69.9 [c]	18.1	34.9	2.6	10.7	3.6	..	30.1 [c]	..
Plan 1973	ca.3	..	..	..	..	..	..	..	..	..
1973	—	..	..	34.4	..	..	..	..	..	..
Plan 1974	6-7	..	..	..	..	..	..	..	..	..
1971-1973	3.0	..	..	34.4	..	..	..	..	..	..
Plan 1971-1975	5.1	69.8 [c]	11.3	36.1	2.8	16.5	3.1	..	30.2 [c]	..

Poland										
1966-1970	8.1	75.0	16.4	39.4	4.0	11.2	3.2	0.8	25.0	15.5
1971	7.7	76.2	16.1	40.0	3.5	13.0	2.3	1.5	23.8	15.4
1972	23.4	77.9	15.1	43.6	3.7	11.2	2.5	1.8	22.1	13.8
Plan 1973	12.9	..	..	..	..	..	.	..	..	..
1973	23.0	..	..	..	..	..	..	..	..	..
Plan 1974	11.8	..	(17.6) [d]	46.6	4.6	10.2	..	..	22.7 [e]	..
1971-1973	17.8	..	..	..	..	..	..	..	..	..
Plan 1971-1975	8.3	74.3 [c]	14.4	43.4	2.9	11.4	2.2	..	25.7 [c]	14.4
Romania										
1966-1970	11.2	83.0	15.5	50.0	4.0	10.2	3.0	0.3	17.0	9.9
1971	10.4	83.7	16.0	48.5	4.8	10.1	4.0	0.3	16.3	9.5
1972	11.8	83.8	14.8	50.5	4.6	10.0	3.7	0.2	16.2	9.0
Plan 1973	12.8	..	..	..	..	..	..	..	..	..
1973	5.3 [e]	..	..	..	..	..	..	..	..	..
Plan 1974	18.1	..	..	..	..	..	..	..	..	..
1971-1973	9.1	..	..	..	..	..	..	..	..	..
Plan 1971-1975	10.5 *	..	..	51.6	3.4	10.0	2.4	..	..	..
Soviet Union										
1966-1970	7.6	68.6	16.9	35.6	3.4	9.3	2.8	0.6	31.4	17.0
1971	7.3	70.6	18.7	35.3	3.8	9.6	2.6	0.6	29.4	16.0
1972	7.2	71.1	19.2	35.1	3.8	10.2	2.6	0.2	28.9	15.6
Plan 1973	3.5	..	..	..	..	..	..	..	..	..
1973	3.9	..	26.3	..	..	..	..	..	..	..
Plan 1974	6.3	78.1	27.0	..	..	..	..	..	21.9	..
1971-1973	6.1	..	..	..	..	..	..	..	..	..
Plan 1971-1975	6.8	..	21.6	41.6	..	10.1	..	..	..	14.8

Sources and notes: as for table 3.1.

NOTES.— The data cover all sectors of ownership.

Agriculture includes forestry; transport includes communications; trade includes public catering, the agricultural purchase organization and the material supply system.

The information on the distribution of gross fixed capital formation in Bulgaria is based here on data at current prices which differ from data at constant prices by less than one per cent in the period covered.

[a] Annual percentage change required so as to obtain the planned 1971-1975 total of gross fixed capital formation. The comparison of five-year totals (1971-1975 over 1966-1970) would show a total increase by 29 per cent which on an "annual" basis would represent 5.2 per cent.

[b] Food processing is included with agriculture.

[c] "Other" items of the material sphere are included with the non-material sphere.

[d] Includes food-processing industry.

[e] Estimated. Centralized State investment is reported to have increased by 9.1 per cent.

The rate of output expansion in the *construction sector* in Romania last year was about the same as in 1972 but less than two years earlier. Output grew sharply in Poland in comparison with both preceding years; growth was less sharp in the German Democratic Republic and Bulgaria but was also higher than in the two preceding years. In Hungary output grew very little and hardly above the low increase in the year before. In the Soviet Union and Czechoslovakia output, which in previous years had grown at much higher rates, decelerated in 1973.

In comparing the five-year averages of the 1966-1970 Plan period with the three-year averages of the 1971-1975 period the outstanding feature is the radical acceleration of output in Poland. In Czechoslovakia there was a modest acceleration of output and a slight deceleration in the Soviet Union. Output decelerated sharply in Romania (to about two-thirds of the earlier average) and in Hungary, the German Democratic Republic and Bulgaria (to about one-half the former average rate).

The contribution of productivity increases to the expansion of construction output last year was considerable in four of the countries for which this information is available. In the Soviet Union, and Czechoslovakia, output increases of 5-7 per cent were accompanied by productivity increases of 4-5 per cent (i.e., between two-thirds to four-fifths of the output expansion was obtained by productivity increases). On the extremes, output expansion by 21 per cent in Poland was due to 12 per cent to productivity increases (three-fifths) while in Hungary the modest 3 per cent increase was entirely due to higher productivity (table 3.6).

In the years 1971-1973 output growth was dominated by productivity increases in three countries. In the Germans Democratic Republic about three-quarters of the output increase came from the rise in output per man, in Hungary the whole of this increase (although with a low rate of output growth), and in Czechoslovakia two-thirds (implying a fast growth of both output and productivity). The share of employment and productivity in output expansion in these years was about equal in the Soviet Union and Poland while the share of employment was larger in Romania and, most likely, Bulgaria.

Output expansion in the construction sector was generally much less labour intensive in these years than in 1966-1970. The contribution of productivity in relation to employment increased considerably in the expansion of construction output in the German Democratic Republic and Hungary and it also increased materially in the Soviet Union and Czechoslovakia. Even in Poland where the increase in output was extraordinarily high there was no deterioration in the relative contributions. The change in Romania and Bulgaria also appears to have been minor.

Output expansion in the construction sector was capital intensive in eastern Europe in 1971-1973, as it was in 1966-1970: extra inputs of fixed capital in both periods markedly surpassed extra inputs of manpower. However, returns to the rising capital intensity of employment (fixed capital per employed) were uneven as between countries. Only in Czechoslovakia did increases in fixed capital per employed and output per employed develop roughly in parallel. In the other countries, increases in capital intensity were larger than increases in labour productivity. The discrepancy appears to have been reduced recently in Poland and the Soviet Union, but remained particularly large in the German Democratic Republic, Hungary, Romania and Bulgaria.

Supplies of material inputs for construction (as far as can be assessed from relative changes in expansion rates) appear to be forthcoming without any major disturbance in most east European countries. Output expansion in the building materials industry in these countries, as a rule, preceded the expansion of construction output (table 3.5). Relative changes appear to be favourable through both 1966-1970 and 1971-1973 in the Soviet Union and Romania. Recently there appears to have been more ample supplies of building materials in the German Democratic Republic, Bulgaria and, to a lesser extent, in Hungary. The discrepancy in the material inputs-to-output relationship in the construction industries of Czechoslovakia and Poland appears to be more persistent. The margin widened particularly sharply in Poland in the last few years.

The share of investment construction and installation work in total construction output generally appears to be decreasing in eastern Europe and the share of repair and maintenance work to be increasing. This tendency to some extent compensates for earlier periods of disrepair and neglect of maintenance which, for many years, was a corollary of the extended efforts to increase the volume of new investment. This change has occurred more recently in the German Democratic Republic and Hungary which have a relatively older and often obsolete capital stock: the allocations for repair and maintenance in these countries, contrary to the years 1965-1970, increased faster in 1971-1973 than allocations for investment. The shift in this direction occurred in many countries many years ago and prevailed through 1965-1970 as well as 1971-1973. By contrast, there have been signs largely of a strained investment situation in Romania and Bulgaria due to the faster expansion of investment construction than of total construction output.

The expansion of engineering output also was higher as a rule than investment expansion. The volume of domestic supplies of *machinery* thus increased but did not in all cases meet the exacting standards sought by domestic investors.[77] Machinery imports, therefore, remained one of the main sources of new technology. The majority of patents and licences was purchased together with complete sets of imported factory equipment. The investment process thus constitutes a powerful link integrating these countries into the international economy. In this situation problems of investment demand and supply become a central issue of each country's national and international economic policy.

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[77] Domestic engineering industries, of course, cannot reach highest world standards for all items of equipment required for domestic investment. A recent official survey in Czechoslovakia found, for example, that only about 10 per cent of engineering products were of the technically highest world standard; 54 per cent were on the world average and 36 per cent were below the world average (cf. *Hospodářské Noviny*, No. 42, 1973).

TABLE 3.4

Gross fixed capital formation by industrial branches

Country and period	Annual percentage changes (total industry)	Percentage distribution: Electric power	Fuel	Metallurgy	Engineering	Chemicals, rubber	Building materials	Wood pulp, paper	Light industries	Food processing	Other (residual)
Bulgaria											
1966-1970	12.6	14.2	9.5	14.2	17.1	15.6	5.0	4.2	5.5	9.6	5,1
1971	—1.3	14.9	7.8	10.9	17.4	23.2	3.8	6.8	4.0	6.9	4.3
1972	3.0	16.5	6.4	11.9	18.0	16.6	6.7	5.4	4.1	8.4	6.0
1973	10.3	..	..	..	..	..	..	..	..	..	..
Plan 1971-1975	..	25		11.3	17.5	15.0	8.8	..	..	8.8	..
Czechoslovakia											
1966-1970	4.6	11.1	9.9	10.7	17.7	12.4	6.0	4.7	5.8	7.0	14,7
1971	4.6	10.7	8.8	9.4	18.0	11.9	6.6	6.9	6.2	6.6	14,9
1972	2.9	12.6	9.3	7.9	16.7	10.8	7.7	5.8	6.6	7.5	15,1
German Democratic Republic											
1966-1970	8.6	21.9		5.9	24.8	20.8	4.4	9.9 [a]		6.4	5.9 [b]
1971	3.2	22.2		5.2	26.5	21.8	4.9	8.7		6.1	4.6
1972	6.2	27.4		4.7	21.6	22.6	3.7	9.7		5.6	4.7
Plan 1973	13.0	..		..	..	..	..	..		..	..
1973	9.0	27.5		5.1	20.1	20.0	3.6	12.8		6.1	4.7
Plan 1974	3.2	.. [c]		.. [c]	..	.. [c]	.. [c]	..		..	..
1971-1973	6.1	25.8		5.0	22.6	21.4	4.1	10.5		5.9	4.6
Plan 1971-1975	—2.2	..	..	..	..	..	..	..	..	..	..
Hungary			[d]					[e]			
1966-1970	8.7	12.3	15.8	11.1	18.1	16.0	6.5	9.8		9.5	0.9
1971	13	10.5	14.2	9.1	17.2	15.0	8.8	13.4		10.5	1.3
1972	—	12.4	11.1	8.6	15.9	21.5	7.8	12.6		8.8	1.3
1973	—1	13.5	11.1	6.8	15.3	19.4	10.4	12.0		10.3	1.2
1971-1973	3.8	12.2	12.0	8.2	16.1	18.6	8.9	12.8		9.9	1.3
Poland											
1966-1970	7.7	10.1	16.0	11.7	19.4	15.6	6.1	3.8	6.1	8.6	2.6
1971	10.4	11.5	16.0	13.9	20.6	11.3	6.3	3.5	7.0	7.8	2.1
1972	34.6	9.9	14.2	11.7	21.6	11.3	6.6	3.6	8.4	10.6	2.1
Romania											
1966-1970	10.4	14.7	16.2	13.6	14.6	13.8	4.5	6.1	5.2	6.8	4.8
1971	12.8	14.8	13.1	10.9	19.5	13.5	6.2	5.8	5.3	6.5	4.4
1972	15.0	13.0	12.2	11.1	19.8	17.5	6.1	5.5	5.5	5.9	3.4
Plan 1973	21.8	..	..	..	..	..	..	..	..	..	.
Soviet Union				[f]							
1966-1970	6.8	11.1	18.3	8.1	18.2	8.8	5.5	4.8	4.4	8.3	12.5
1971	5.2	11.0	17.7	7.1	20.8	8.0	5.7	4.8	4.3	7.6	13.0
1972	6.6	10.3	18.0	7.2	21.1	8.3	6.0	4.9	4.5	7.5	12.2
Plan 1973	..	..	..	..	13	10	..	5.5	5	..	..

Sources and notes: as for table 3.1.

NOTES.—Electric power includes steam production for power and heating; engineering—other metal using industries; light industry—textiles, clothing and footwear; other industries—glass, porcelain, chinaware; printing; all co-operative industry (except for Romania); and the residual.

Data for Bulgaria and Hungary are at current prices.

[a] Also including glass, porcelain, chinaware and printing.

[b] Water economy.

[c] Combined total for energy and industrial materials production: 55.0 per cent in 1973 and 55.3 per cent in the 1974 Plan (related to total industrial investment).

[d] Includes ore mining.

[e] Includes wood processing, pulp, paper.

[f] Only ferrous metallurgy.

TABLE 3.5

Fixed capital formation by type of capital good, and output and foreign trade of capital goods industries

Country and period	Annual percentage changes								Percentage shares in gross fixed capital formation	
	Gross fixed capital formation		Output of capital goods industries			Foreign trade of machinery and equipment a				
	Construction	Machinery and equipment	Construction	Building materials industry	Engineering industry	Exports	Imports	Supply balance b	Construction	Machinery and equipment
Bulgaria										
1966-1970	10.1	13.3	12.1	10.2	15.6	14.9	7.7	6.3	50.2	37.2
1971	−6.2	9.1	2.8	10	15	16.4	23.9	51.0	46.4	36.6
1972	13.3	ca.5 *	4.0	12	13	22.4	18.6	8.1	48.0	35.0 c
Plan 1973	..	..	..	..	19.2	..	..	..	..	..
1973	..	..	7.0	..	..	26.5 c	11 c	..	..	..
Czechoslovakia										
1966-1970	7.1	7.3	7.9	6.9	9.2	7.9	9.0	−6.0	61.9	38.1
1971	6.6	4.1	9.5	7.9	8.5	8.8	7.7	−10.7	61.8	38.2
1972	11.1	4.9	9.8	4.5	7.8	7.9	9.5	−5.0	63.2	36.8
Plan 1973	4.6	10.2	5.0	8.0	7.7	..	..	..	..	..
1973	4.9 a	14.6 a	6.7	6.5	8.3	5.0	25.4	33.0	61.6 a	38.4 a
Plan 1974	..	..	6.3	..	..	..	..	..	..	..
1971-1973	7.4*	6.3*	8.7	6.3	8.2	7.2	13.9	..	..	..
Plan 1971-1975	..	..	6.7	8.0	7.7	..	..	..	..	..
German Democratic Republic										
1966-1970	9.2	10.1	8.3	5.8	8.2	9.1	26.7	7.1	40.7	52.8
1971	2.3	−1.9	5.6	6.5	6.4	11.0	0.5	−5.4	40.9	51.8
1972	5.5	2.3	2.8	3.0	6.3	11.2	5.0	−22.0	41.2	51.6
Plan 1973	..	..	7.6	..	..	..	..	..	..	..
1973	4.6	12.0	3.9	7.1	7.5	9.7	22.7	9.8	40.1	52.7
Plan 1974	..	..	6.1	..	..	..	..	..	..	..
1971-1973	4.1	4.0	4.1	5.4	6.8	10.6	9.0	..	40.8	51.9
Plan 1971-1975	..	..	5.0	..	..	..	..		..	..
Hungary										
1966-1970	13.2	11 *	10.7	5.2	7.8	7.6	11.6	..	47.2	52.8
1971	9	16 *	7	3	8	7.6	40.5	..	49.7	50.3
1972	—	−5 *	2	3	5	28.1	−9.0	..	50.8	49.2
Plan 1973	..	..	4	4.3	6.5	..	..	..	..	..
1973	..	..	3	6.7	5.6	19	−5		..	..
Plan 1974	..	..	4	6	7-8	..			..	..
1971-1973	..	..	4.0	4.2	6.2	18	7	..	..	..
Plan 1971-1975	..	..	7-8	..			..	..	..	..
Poland										
1966-1970	7.5	9.3	8.6	6.7	12.3	12.4	10.9	..	58.3	36.1
1971	4.7	10.5	6.2	6.5	12.4	10.9	10.1	..	55.9	37.9
1972	14.3	35.1	16.4	8.6	13.0	15.8	36.9	..	51.8	41.5
Plan 1973	13.4	12.3	13.3 d	6.5	11.9	12.5	27	..	..	..
1973	..	..	20.8 d	6.5	..	17.5 e	41.8 e	..	..	..
Plan 1974	13.7 a	..	10.6 f	8.6	19.1	..	..	..	..	..
1971-1973	..	..	17.9	7.2	..	14.7*	28.9*	..	..	..
Plan 1971-1975	..	..	..	7.4 g	11.9	11.8	11.0		..	..
Romania										
1966-1970	10.4	13.0	11.5	13.0	15.8	15.5	12.9	10.4	47.1	38.3
1971	10.1	10.5	9.3	14.1	15.9	14.8	12.1	−9.0	46.3	40.3
1972	8.1	16.0	7.0	10.5	15.8	22.8	25.4	28.7	45.1	42.1 h
Plan 1973	..	..	..	..	..	48.6	..	..	..	..
1973	..	..	7.3	6.7	20.7	39.0	32.0	..	44.8	.. h
Plan 1974	..	..	..							
1971-1973	..	..	8.0	10.4	[illegible]	25.0*	23.0*		..	..
Plan 1971-1975				[illegible]					..	..

TABLE 3.5 *(continued)*

Fixed capital formation by type of capital good, and output and foreign trade of capital goods industries

	Annual percentage changes								*Percentage shares in gross fixed capital formation*	
	Gross fixed capital formation		*Output of capital goods industries*			*Foreign trade of machinery and equipment a*				
Country and period	*Construction*	*Machinery and equipment*	*Construction*	*Building materials industry*	*Engineering industry*	*Exports*	*Imports*	*Supply balance b*	*Construction*	*Machinery and equipment*
Soviet Union										
1966-1970	7.0	7.6	7.4	8.4	11.7	11.0	9.2	−3.2	62.1	30.4
1971	8.7	5.1	8.8	8.5	11.3	9.1	1.7	12.6	62.2	30.2
1972	6.4	8.3	6.8	7.0	12	11.1	20.8	47.0	61.7	30.5
Plan 1973	..	..	..	..	10.4	..	..	..	..	..
1973	..	..	5.3 d	8.0	12.0	15	16	1.8	..	..
Plan 1974	..	..	..	..	..	..	..	..	..	..
1971-1973	..	..	6.9*	7.8	9.2	11.5	12.5	..	..	..
Plan 1971-1975	..	..	7.5	7.0	11.0	..	..	..	..	..

Sources and notes: as for table 3.1.

a At current prices.

b "+" — increase in import surplus *or* decrease in export surplus;
"−" — increase in export surplus *or* decrease in import surplus.

c Nine months.

d State and co-operative sector.

e Eleven months.

f Work on investment and capital repairs.

g Including glass and ceramics.

h The share of equipment installed in plants (excluding items not requiring installation) increased from 19.8 per cent in 1972 to 23.5 per cent in 1973.

In the Soviet Union, Czechoslovakia, the German Democratic Republic and Poland, the possibilities for investment expansion were greatly increased by increasing import surpluses or reducing export surpluses in the course of 1972 and 1973. These developments substantially influenced the whole investment process in Czechoslovakia and the German Democratic Republic last year and in the Soviet Union and Poland in the last two years.

Engineering exports by contrast have been given higher priority in recent years not only in Hungary, which is a traditional machinery exporter, but also in Romania and Bulgaria, which have only recently become important exporters of machinery and equipment.

(iv) Investment finance

Investment financing in 1973 and in the Plans for 1974 generally follows the traditional pattern of socialist countries. Centralized State investment is covered to an important degree by budgetary allocations. A further important part of finance is provided through self-financing from enterprise profits and amortization allowances. Long-term credits and postponement of payments also have their role. Additional financing possibilities are obtained from eventual reductions of machinery prices and construction costs and the mobilization of additional resources by the investing firm or enterprise itself. In decentralized investment of the State and co-operative sector self-financing and credits are preponderant. Housing finance during the current five-year plan is being shifted increasingly from budgetary financing towards a combination of financing through credit and self-financing of individual dwelling owners.[78]

The Soviet financial exercise in 1973 and the financial programme for 1974 reflect a clear tendency towards increased centralization. The share of centralized State capital investment in total investment is to rise from about 72 per cent to about 75 per cent, as can be seen from the table on the next page.

The reduction in the share of decentralized investment and individual dwelling construction thus is being offset in the Soviet Union by increased budgetary allocations, self-financing of State and co-operative enterprises, as well as additional long-term bank credits and other sources (mainly the postponement of payments).

The Soviet Union, in contrast to most other east European countries, aimed at, and partly succeeded in reducing investment costs. Domestic sales prices of machinery and equipment of domestic origin were reduced on average by 12 per cent on 1 January 1973—with decreases in the range of 15-20 per cent for electronic equipment, radio-technical equipment, electrical equipment and instruments.[79] The reduction in construction costs was less satisfactory: they were expected to decrease through better planning and plan implementation by 3-5 per cent in the course of 1971-1975 (annually by 0.6-1.0 per cent) but "the ministries placing orders were fulfilling these tasks only slowly and, instead of lowering the costs of units constructed, tolerated their increase".[80]

Serious shortcomings exist, moreover, in the financial and management practices of construction enterprises. Many of them reportedly fail to fulfil their assigned tasks for cost reduction, their profit plan and their budgetary obligations. Construction ministries failed to meet their

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[78] On the financial aspects of housing see section 4.

[79] *Ekonomicheskaya gazeta*, No. 20, 1973.

[80] *Finansy SSSR*, No. 1, 1974, p. 12.

	1973		1974	
	Billion Roubles	*Per cent*	*Billion Roubles*	*Per cent*
Centralized State investment	70.5	71.9	78.0	74.8
Of which:				
Budgetary allocations	33.8	34.5	37.2	35.7
Enterprise profits	11.3	11.5	13.1	12.6
Amortization allowances	16.1	16.4	17.0	16.3
Savings from the lowering of machinery prices	2.4	2.4	2.4	2.3
Other means provided by investing firm or administration	1.4	1.4	1.6	1.5
Long-term bank credits	2.3	2.3	2.7	2.6
Other sources	3.2	3.3	4.0	3.8
Decentralized investment and individual dwelling construction	27.5	28.1	26.2	25.2

Source: Finansy SSSR (official publication of the Ministry of Finance), No. 1, 1974.

plan for the increase of labour productivity in all years of the current five-year plan. They employed more workers than planned and each year they over-spent their wage fund. Material losses were also frequent on construction. Foregone profits on these accounts were officially estimated to have reached more than 1 billion roubles in three years.

Foreign financing possibilities played an increasing role in capital formation in Poland (see table 3.7) where they added an estimated 4-5 per cent to domestically produced resources for distribution between consumption and investment. Another important source of investment finance was the growth of national income which was higher than planned. Net material product grew at about 10 per cent instead of the planned 7.9 per cent and the net import surplus was double the planned amount. This permitted distributed national income to increase by 14 per cent instead of the planned 10 per cent. Thus gross investment increased by 23 per cent instead of the planned 13 per cent without affecting the planned growth of consumption.

In addition to Poland, the role of foreign finance also increased in Czechoslovakia (see table 3.7).

The international aspects of investment finance in Hungary are of a different nature. Hungary ran up a considerable trade and payments deficit in the years ending in 1971 and is presently engaged in planning export surpluses.

A similar situation appears to exist in Romania and, to a lesser extent, in Bulgaria as appears from the following text-table which indicates a net withdrawal from domestic resources through exports instead of an addition to domestic resources through imports.

Net commodity imports (+) or exports (−) in million dollars

	Romania	*Bulgaria*
1971	+ 2	− 82
1972	+ 17	− 55
Plan 1973	− 362	—
1973	− 240	− 107

Investment financing in Hungary is noteworthy for an additional reason. Apart from administrative measures aimed at limiting investment expansion, Hungary makes widespread use of financial instruments regulating investment. The financial policy measures taken from 1971 onwards and effective in 1973 included: (a) a prolongation of the credit freeze for the first six months of 1972 and a restrained credit policy in the following eighteen months; and (b), the requirement of a 30 per cent contribution from own resources to finance investment.

Investment financing faces greater difficulties in the east European countries than in the Soviet Union because price and cost stability is more difficult to maintain in the investment sector for two reasons. The first is that the existence of flexible wage, retail price and supply policies obviously increases the difficulty of maintaining stable construction costs; and the second is that the greater the import dependence on machinery, the greater the

	Annual percentage changes			
	1966-1970[a]	*1971*	*1972*	*1973*
Czechoslovakia				
Investment cost index	1.9	−0.6	−0.7	. .
Hungary[b]				
Investment cost index	5.7	1.7	4.8	2.8
Of which:				
Construction costs	7.7	3.0	4.2	3.0
Domestic machinery prices	3.3	0.8	4.4	1.5
Imported machinery prices	5.6	0.2	7.1	3.7[c]
Poland				
Investment cost index	0.1	9.9	0.1	. .

Sources: national statistical yearbooks and bulletins; plan-fulfilment reports.

[a] 1968-1970 for Hungary.

[b] Refers to State and co-operative investment.

[c] *Of which:* imports from CMEA countries, 0.5-1 per cent; imports from western countries, 8-10 per cent (provisional estimate).

TABLE 3.6

Gross output and factor inputs in construction

(Annual percentage changes)

				Per employed	
Country and period	*Gross output*	*Fixed assets*	*Employment*	*Fixed assets*	*Gross output*
Bulgaria					
1966-1970	12.1	17.4	6.2	10.5	5.6
1971	2.8	12.7	2.4	10.1	0.4
1972	4.0	. .	1.6	. .	2.4
1973	7.0	. .	. .	. .	. .
1971-1973	6.3	. .	. .	. .	. .
Czechoslovakia					
1966-1970	7.9	7.6	2.8	4.7	5.0
1971	9.5	7.7	2.9	4.7	6.4
1972	9.8	9.3	3.0	6.1	6.6
1973	6.7	. .	2.0	. .	4.5
1971-1973	8.7	. .	2.6	. .	5.8
German Democratic Republic		[a]		[a]	
1966-1970	8.3	10.3	4.2	6.8	3.9
1971	5.6	8.2	0.4	7.8	5.2
1972	2.8	7.1	0.1	9.3	2.8
1973	3.9	6.8	2.5	6.3	1.4
Plan 1974	6.1	. .	2.0	. .	4.0
1971-1973	4.1	7.4	1.0	7.1	3.1
Plan 1971-1975	5.0	. .	0.3	. .	4.5
Hungary			[b]	[b]	[b]
1966-1970	10.7	11.7	8.3	3.1	2.1
1971	7	20	1	19	6
1972	2	24	1	23	1
1973	3	. .	−2	. .	5
1971-1973	4	. .	—	. .	4
Poland					
1966-1970	8.6	11.6	3.6	7.7	4.8
1971	6.2	3.1	4.1	−1.0	2.0
1972	16.4	16.7	6.4	9.7	9.4
1973	20.8[c]	. .	7.9[c]	. .	12.0[c]
1971-1973	14.3	. .	6.1	. .	7.7
Romania					
1966-1970	11.5	11.7	5.8	5.6	5.4
1971	9.3	16.1	4.6	11.0	4.5
1972	7.0	13.9	4.5	9.0	2.4
1973	7.3	. .	. .	. .	. .
1971-1973	8.0	. .	. .	. .	. .
Soviet Union					
1966-1970	7.4	12.8	4.2	8.3	3.1
1971	8.8	8.7	5.5	3.0	3.0
1972	6.8	8.7	3.5	5.0	3.2
1973	5.3[c]	. .	1.0[c]	. .	4.3[c]
1971-1973	6.9*	. .	3.3*	. .	3.5*

Sources and notes: see table 3.1.

NOTE.— Data refer to construction sector only (excluding construction work performed by enterprises and organizations in other sectors).

[a] Annual average.

[b] Workers only.

[c] State and co-operative sector.

TABLE 3.7

Supply and use of resources

Country and period	National income distributed	Net material product	Net commodity imports (+) or exports (−)		Net capital formation			Total consumption
	Billions of national currency units at constant prices			*Millions of dollars*	*Billions of national currency units at constant prices*			
					Total	Fixed capital	Stocks	
Czechoslovakia								
1971	282.8	294.7	−11.9	−171	61.7	44.5	17.2	221.1
1972	299.4	312.2	−12.8	−253	65.0	48.2	16.8	234.4
Plan 1973	..	328.1	..	+63	..	..	..	..
1973	..	328.4	..	+131	..	..	..	..
Plan 1974	..	345.5	..	..	..	..	..	..
Hungary								
1971	299.4	276.7	+22.7	+490	83.5	54.0	29.5	215.9
1972	288.0	290.7	−2.7	−137	65.4	58.1	7.3	222.6
Plan 1973	300.0	303.8	..	−148	..	..	..	..
1973	296.8	310.1	−13.3	−514	64.3	56.8	7.5	≥232.5
Plan 1974	326 *	325.6	—*	..	≤69*	..	..	≥257
Poland								
1971	841.8	855.4	−13.6	+166	247.1	184.8	62.3	594.7
1972	948.5	941.9	+6.6	+402	299.7	235.1	64.6	648.8
Plan 1973	1 040.5	1 016.0	+24.5	+837	..	..	..	..
1973	1 081.0 *	1 036.0	+45.0 [a]	+1 565	..	..	..	..
Plan 1974	1 182.0 *	1 134.0	+48.0 [a]	+2 175	..	..	..	
Soviet Union								
1971	283.5	301.5	−20	−1 328	87.1	53.7	33.4	196.5
1972	293.0	313.3	−20	+686	86.0	55.5	30.5	207
Plan 1973	311.0	332 *	−21	..	..	..	..	..
1973	313.0	338 *	−25	−438	..		..	..
Plan 1974	333.0	362 *	−29	..	..	..	..	..

Sources: national statistical yearbooks; *CMEA Statistical Yearbook*; plans and plan-fulfilment reports.

NOTES.— The figures for 1973 are preliminary.

No direct comparison is possible between import and export surpluses in terms of national currency units (derived from national accounts) and the same balance in foreign-trade dollars (derived from foreign trade statistics) because of the differential impact of domestic "price equalization" (subsidies and taxation). The difference between net material product and distributed national income, moreover, includes losses, waste and statistical discrepancies. Even the sign of the balance may change in reverse for these reasons.

difficulty of avoiding higher machinery prices when foreign prices are rising.

The east European countries have met these problems in two different ways, some making annual adjustments, the others adjusting them at intervals of several years.

Hungary appears to have followed a policy of flexible but controlled adjustments. The investment cost index rose considerably in 1972 because of fast increases of both construction costs and machinery prices (see the text-table above). By contrast in 1973 there was a smaller increase of domestic investment costs and practically unchanged prices for machinery imports from CMEA countries, but continuing price increases for imports from western countries. In Romania investment costs appear to have followed a similar pattern, an estimated 4.5 per cent increase of investment costs probably reflecting sizeable increases in the prices of imported machinery.

The available information on changes in investment costs show very little change in 1972 in Poland and some reduction in 1971 and 1972 in Czechoslovakia. The small rise in Poland followed an increase of about 10 per cent in 1971. In Czechoslovakia investment costs rose by 10 per cent between 1965 and 1970 (1.9 per cent per annum), most of the increase being concentrated in 1967-1969. Notwithstanding this low rise of investment costs actual expenditure in recent years on major investment projects (i.e. projects of more than Kčs 1.5 million) in Czechoslovakia considerably surpassed planned expenditure (by Kčs 7.2 billion in 1971 and Kčs 6.4 billion in 1972). Some 20-25 per cent of this excess expenditure is known to reflect increased prices for imported machinery.[81]

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[81] Cf. *Hospodářské Noviny*, No. 32, 1973.

4. CONSUMERS' INCOMES AND SUPPLIES

In 1973, incomes, prices and supplies in the consumption sector, and all related policies, followed rather closely the pattern established in the 1971-1975 Plans. These plans provided for a parallel increase of net material product and of total as well as personal consumption in Czechoslovakia. The increase of consumption was planned to be only marginally lower by this comparison in the Soviet Union, Poland and Hungary and only slightly higher in Bulgaria. Consumption, by contrast, was planned to expand less fast than the net material product in the German Democratic Republic and Romania.

In 1973, consumption expanded by an estimated 6 per cent in the Soviet Union and by about the same rate in the German Democratic Republic and Czechoslovakia. Expansion of consumption was even faster in Poland, Romania and Bulgaria, but slower in Hungary.

Considering developments in the 1971-1973 period, only in Czechoslovakia was the consumption performance in line with the rates planned for 1971-1975. The actual rates for the three years surpassed the planned five-year rates in Poland and the German Democratic Republic, but were lower in the Soviet Union, Hungary, Bulgaria and Romania.

The expansion of consumption in 1971-1973 was only marginally lower than the expansion of net material product in most countries and significantly lower only in Hungary and, probably, in Romania. The three-year increases in consumption for the Soviet Union, Czechoslovakia, the German Democratic Republic and Hungary were at average annual rates of 5-6 per cent (altogether 15-18 per cent), for Bulgaria and Romania at average annual rates of about 7 per cent (altogether more than 20 per cent) and for Poland at an average annual rate of 9 per cent (altogether nearly 30 per cent).

(i) Money incomes

Total money income of the population increased in 1973 by 5-6 per cent in the Soviet Union, the German Democratic Republic and Czechoslovakia. The increase was 9-10 per cent in Hungary and Romania and even higher in Poland (13 per cent). Wages, salaries and other wage-like incomes (subsequently referred to as wage incomes), incomes from agriculture, and pensions and other social benefits increased at about a 6 per cent rate in the Soviet Union. Agricultural and transfer incomes in Poland and Romania increased faster than wage incomes. Pensions expanded fastest in Hungary and the German Democratic Republic (table 4.1).

The expansion in 1973 of wage incomes in the Soviet Union was the result of an increase of the total number of wage- and salary-earners by 2.3 per cent and a rise in the average monthly wage by 3.7 per cent. Earnings of collective farmers increased by about 6 per cent. Money incomes received by the population from the social consumption fund also rose at about the same rate.

Money incomes in the German Democratic Republic increased somewhat faster than planned. This mainly came from the more than planned increase in the overtime work of wage-earners. Price increases granted for farm products contributed to the fast increase of agricultural incomes. About one-third of the total increase of money incomes was due to the social policy measures of 1972, which added 0.8 billion marks in 1972 and 2.7 billion marks in 1973 to pensions and other social allowances.

The increase of money incomes in Czechoslovakia was also more than planned. The average monthly earnings of wage- and salary-earners in the State and co-operative sector rose by 3.5 per cent and added to the unplanned increase of money incomes. Average earnings of co-operative farmers (which include earnings in kind) increased faster than wage-earnings. The full implementation of the social policy measures of end-1971 increased pensions, family allowances, sickness, birth and maternity allowances, etc.

The increase of money incomes in Hungary reflected the combined effect of closely co-ordinated price and income policy measures. Wage incomes rose by 9 per cent, partly under the impact of the upward adjustment of wages and partly as the result of high increases in labour productivity. The even faster rise of agricultural incomes came from an increase in the farm purchase price of milk and cattle, and the increase in the share, from increased output, of marketed farm products. Pensions and social allowances increased particularly fast—total pension payments by 20 per cent and payments of family allowances by 30 per cent. Most of these higher allowances, however, compensated for the income effect of the official retail price increase of milk and dairy products.

The expansion of money incomes in Poland was substantially faster than planned. The average monthly wage rose, instead of as planned by less than 7 per cent, by nearly 11 per cent—because of a higher than planned productivity increase and a widespread upgrading of workers. The more than planned rise in agricultural incomes, from much increased output and sales, was particularly steep. The increase in pensions and social benefits, in these conditions, lagged behind the expansion of both wage incomes and agricultural incomes.

TABLE 4.1

Money incomes, credits, expenditure

(Annual percentage changes)

Country and period	Total money income	Wage and wage-like income	Incomes from agri-culture	Pensions and social benefits: Total	Pensions and social benefits: Pensions	Incomes in private sector	Other incomes	Credits to popu-lation	Actual money expen-diture
Czechoslovakia									
1966-1970	8.2	7.5	7.1	10.7	10.2	..	10.6	6.6	7.9
1971	5.5	4.6	2.3	3.7	7.5	..	12.8	36.7	5.0
1972	6.0	5.2	5.6	7.1	6.9	..	11.3	4.6	5.5
Plan 1973	5.3	..	..	..	..	..	..	..	..
1973	6.2	..	..	..	..	..	..	..	..
German Democratic Republic									
1966-1970	4.0	3.6	..	5.0	5.1	..	..	..	..
1971	3.4	4.0	..	6.9	6.3	..	..	..	..
1972	6.1	3.8	..	9.8	10.4	..	..	..	..
Plan 1973	5.3	..	..	..	..	..	..	..	..
1973	5.6	..	..	..	15	..	..	..	..
Plan 1974	4.5	..	..	..	..	..	..	..	..
Hungary									
1966-1970	8.6	..	..	..	..	..	..	..	..
1971	7.7	6.4	16.9	10.9	13.5	1.8	..	19.7 [a]	..
1972	7.2	6.7	5.2	12	12.7	7.1	..	−1.2 [a]	..
Plan 1973	..	..	..	..	..	..	..	..	..
1973	10 *	9 *	10	19	20	..	..	..	..
Plan 1974	9	..	..	14	13.5	..	..	..	..
Poland									
1966-1970	7.2	7.8 [b]	4.0	9.6 [b]	14.0 [b]	6.3	..	5.2	..
1971	10.4	9.2 [b]	15.2	16.8 [b]	14.8 [b]	−5.6	15.0	15.6	7.4
1972	13.6	12.4 [b]	11.3	8.5 [b]	9.3 [b]	3.2	−10.9	21.2	11.3
Plan 1973	10.6	11.7 [b]	9.0	..	11.3 [b]	..	..	ca.7.5	..
1973	ca.13.0	11.9 [b]	..	..	10.1 [b]	..	..	..	..
Plan 1974	8.8	9.8 [b]	..	10.1 [b]	11.4 [b]	..	..	..	..
Romania									
1966-1970	..	..	..	..	..	..	..	..	..
1971	8.6	..	..	..	..	..	..	..	..
1972	7.5 [c]	6.4	5.7 [d]	..	..	..	..	..	..
Plan 1973	8.0	10.5 [e]	..	..	..	..	..	..	..
1973	9.3	8.1	11.2	..	..	..	..	..	..
Plan 1974	8.6	11.9	..	..	..	..	..	..	..
Soviet Union									
1966-1970	8.1 [f]	8.2	5.5 [g]	9.5	8.9	..	..	−4.4	..
1971	6.3 [f]	6.2	2.0 [g]	8.7	11.7	..	..	−4.5	..
1972	6.1 [f]	6.1	2.0 [g]	8.4	9.4	..	..	−1.5	..
1973	6.1 [f] *	6.1	5.9 [g]	..	..	..	..	..	..

Sources: national statistical yearbooks; *CMEA Statistical Yearbook*; plans and plan-fulfilment reports.

NOTE. — Gross income—except for the German Democratic Republic, Hungary and Poland for which information refers to net income (if not shown otherwise).

[a] Surplus of credits over repayments.

[b] Gross income.

[c] State sector.

[d] Co-operative sector.

[e] Wage fund.

[f] Wages and wage-like incomes, incomes from agriculture, pensions and other social benefits only.

[g] Income in cash and kind distributed by collective farms.

The increase of money incomes in Romania was close to the planned rate. Total wage income increased somewhat below the 9 per cent increase of total money income and total agricultural income more than total money income. Wage incomes on the average rose by 4 per cent. In Bulgaria, according to preliminary data, average nominal wages and salaries also increased by about 4 per cent.

Nominal wages and salaries per wage-earner in all sectors of the economy in 1973 expanded very fast in Poland (11 per cent), quite fast in Hungary (6-6.5 per cent), but much less fast in the other countries (2-4 per cent). Distribution of wage incomes between sectors was in favour of industry and construction in Hungary, but in favour of other productive and non-material services sectors in Poland and Czechoslovakia (see tables 4.2 and 4.3).

The most important factor in the increase of nominal wages in industry and construction was the workers' share in increased productivity. Productivity increased between 5-9 per cent in industry and between 3-4 per cent in construction. In all countries except Hungary and Poland, productivity increases probably surpassed wage increases and brought a reduction in unit wage costs.

(ii) Income policies

The implementation of the income policies progressed last year in broad accordance with the income policy programmes incorporated into the 1971-1975 Plans.[82] These programmes included a series of measures aiming at the narrowing of income differentials. They were to correct inequalities which developed in the prevailing system of relating wage increases to productivity increases. In addition, in some countries they were to correct differentials created by incentive wage policies. These measures referred to minimum wages, wage adjustments and tax relief on lower income brackets.

Complementary agricultural income policies aimed at maintaining income relatives between the agricultural and non-agricultural sectors or, as in the Soviet Union and Romania, granting higher income increases to agricultural than non-agricultural earners. They mostly appeared in combination with agricultural price policies aiming at stimulating output of agricultural products in short supply.

A further series of measures aimed at improving income distribution by increasing income in particular of the economically weak categories of the population. They included improvements in pension schemes, family or child allowances, health and maternity benefits and student scholarships.

A series of measures incorporated into these plans, by contrast, led to increased income differentials, in particular through stimulating better management, productivity increases and technological innovations and improvements.

Income policies, moreover, have to be concerned increasingly with the impact of rising prices of farm produce in short supply from the agricultural sector and of imported raw materials of consumer-goods industries as well as of imported consumer manufactures.

Income policies in eastern Europe showed a growing concern for increasing the real value of earned incomes. Measures to this effect brought smoother and better housing accommodation, increased provision of motor-cars and, in general, closer adaptation to consumers' requirements of the quality, technical standards and the assortment of consumer-good supplies.

The implementation of the five-year wage and social policy programme continued in the Soviet Union this year—wage policy measures affecting 31 million wage- and salary-earners (about one-third of their total number) and social policy measures 23 million people. The measures raising the minimum wage to 70 roubles monthly and increasing the wages and salaries of the medium category of earners in productive sectors were extended, after their introduction in the northern regions last year, to the Far East, Siberia and the Urals and, now being introduced, in the Kazakhstan and Central Asia. There was an exemption from taxation for wage- and salary-earners with an income in the bracket up to 70 roubles per month and also a lowering of tax rates for earnings up to 90 roubles per month. In all sectors of industry there was an increase in wage supplements for night work.

The income policies, furthermore, aimed at providing incentives to old-age pensioners and housewives to work in consumer-goods industries, retail shops and service enterprises. Enterprises employing old-age pensioners are allowed to retain certain percentages of their profit for enterprise development and social-cultural investment. Looser norms have been established for actively working old-age pensioners; they are given extra leave time, and are authorized to receive entirely or partly both their wage and their pension.

Further measures provided for increases in some categories of pensions and in some other social allowances (e.g., pregnancy and birth allowances; food allowances for students in professional and technical schools).

In the German Democratic Republic, following the wage policy measures of 1971, statutory wages and premia were increased for further categories of wage- and salary-earners. The continuing implementation of the social policy programme of 1972 provided for a rise in old-age pensions and measures to alleviate the burden of parents with many children. There also was an attempt to improve physical working conditions and the quality of services provided in offices and workshops. Rents were, moreover, reduced for low income families and measures were taken to allocate 60 per cent of newly constructed dwellings to manual workers.

In Czechoslovakia, the full impact was felt of the social policy measures taken in December 1971. In the next stages of income policy it is planned to introduce new wage tariffs in 1974 and 1975 in the main sectors of production and, in the subsequent five years, in all sectors of the economy.

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[82] See *Economic Survey of Europe in 1971*, part II, pp. 136-137.

TABLE 4.2

Nominal and real wages per wage-earner

Country and period	Average monthly wage in national currency units	Annual percentage changes: Nominal wages	Annual percentage changes: Consumer price index	Annual percentage changes: Real wages
Bulgaria				
1966-1970	111.7	6.0	0.6 [a]	5.4
1971	126.5	2.2	— [a]	2.3
1972	129.7	2.5	−0.1 [a]	2.6
1973	134.6	3.8	..	..
Czechoslovakia				
1966-1970	1 744 [b]	5.3	1.6 [c]	3.6
1971	2 009 [b]	3.7	−0.4 [c]	4.1
1972	2 091 [b]	4.1	−0.4 [c]	4.5
Plan 1973	2 158 [b]	3.2	−0.3 [c]	3.5
1973	2 165 [b]	3.5	−0.3 [c]	3.8
German Democratic Republic				
1966-1970	696	3.6	—	3.6
1971	785	4.0	−0.2	4.2
1972	814	3.7	−0.5	4.2
1973	829	1.8	−0.4	2.2
Hungary				
1966-1970	1 947 [b]	4.5	1.0 [d]	3.5
1971	2 228 [b]	4.5	2.2 [d]	2.3
1972	2 326 [b]	5.1	2.8 [d]	2.2
Plan 1973	2 460* [b]	5.5-6	3.6 [d]	2-2.5
1973	2 484 [b]	6-6.5	3.5 [d]	2.5-3
Plan 1974	2 620* [b]	5.8	2.0 [d]	3.7
Poland				
1966-1970	2 286 [b]	4.1	1.6	2.5
1971	2 598 [b]	5.7	−0.2	5.9
1972	2 771 [b]	6.7	−0.2	6.9
Plan 1973	2 954 [b]	6.6	..	..
1973	3 070 [b]	10.8	0.8	9.9
Plan 1974	3 245* [b]	5.7 [e]	..	..
Romania				
1966-1970	1 274	5.2	1.4 [a]	3.8
1971	1 471	2.5	0.6 [a]	2.0
1972	1 498	1.8	.. [a]	1.8
1973	1 563	4.3	1* [a]	3.3
Soviet Union				
1966-1970	111.3	4.8	0.2 [a]	5.0
1971	125.9	3.2	—	3.2
1972	130.2	3.4	—	3.4
Plan 1973	133.7	2.7	..	..
1973	135	3.7	0.2* [a]	3.9*
Plan 1974	140	3.6	..	..

Sources: as for table 4.1.

NOTE. — Includes wages and salaries.

[a] Retail price index.

[b] Wages, profit participation and sickness benefits of wage- and salary-earners (excluding apprentices) in State and co-operative sector (excluding members of agricultural co-operatives).

[c] Cost-of-living index for wage- and salary-earners' families.

[d] Consumer price index for wage- and salary-earners' families.

[e] Net wages and salaries.

TABLE 4.3

Labour productivity and unit wage costs in industry and construction

(Annual percentage changes)

Country and period	*Industry*			*Construction*		
	Nominal wages	*Output per employed*	*Unit wage costs*	*Nominal wages*	*Output per employed*	*Unit wage costs*
Bulgaria [a]						
1966-1970	5.4	6.8	−1.3	6.0	5.4	0.6
1971	2.8	6.2	−3.2	0.1	1.3	−1.2
1972	4.0	6.8	−2.6	0.2	8.9	−8.0
1973	6.6	7.8	−1.1	..	..	..
Czechoslovakia						
1966-1970	4.6	5.5	−0.9	5.2	5.0	−0.2
1971	3.8	6.4	−2.4	3.4	6.4	−2.8
1972	3.5	6.3	−2.4	4.3	6.6	−2.2
1973	3.1[b]	5.6[b]	−2.4[b]	3.4[b]	4.3[b]	−0.9[b]
German Democratic Republic [c]						
1966-1970	3.3	6.1	−2.6	4.0	2.3	1.7
1971	3.6	4.9	−1.2	2.3	5.8	−3.3
1972	2.8	4.2	−1.3	2.6	3.6	−1.0
1973	..	5.8[d]	..	..	1.4	..
Hungary						
1966-1970	3.7	3.5	0.2	5.6	2.1[e]	3.4
1971	3.8	7.0	−3.0	3.6	6.0[e]	−2.3
1972	4.5	5.8	−1.2	3.6	1[e]	2.6
1973	9	5.8	3	8	5[e]	3
Poland						
1966-1970	3.8	4.9	−1.0	4.7	4.7	0.0
1971	5.5	5.0	0.5	4.9	2.1	2.7
1972	5.3	6.4	−1.0	7.6	10.5	−2.6
1973	8.4[b]	8.1[b]	0.3[b]	..	12[b]	..
Romania						
1966-1970	4.3	7.3	−2.8	5.5	5.5	—
1971	2.0	5.0	−2.9	3.4	6.0	−2.5
1972	1.4	4.7	−3.2	2.4	7.5	−4.8
1973	..	9.1[f]	..	..	..	..
Soviet Union						
1966-1970	5.1	5.5	−0.4	6.0	4.1	1.9
1971	3.5	6.2	−2.5	3.0	5.1	ca. −2.0
1972	3	5.2	ca. −2	3.2	5.3	ca. −2.0
1973	..	6.0	..	..	4.3	..

Sources: as for table 4.1.

[a] State and co-operative sector.

[b] Industrial and construction enterprises, respectively.

[c] For construction: State construction industry.

[d] Enterprises controlled by industrial ministries.

[e] Workers only.

[f] Only centralized State industry.

In Hungary, centrally determined and financed wage policy measures had an important role in correcting inequalities of income distribution. The measures applied in 1973 only to manual workers and foremen in State industry and construction (1.3 million wage-earners), but are to apply in 1974 to these categories in other sectors of the economy (transport, trade, etc.) and also to State-administrative and research personnel.

Further wage policy measures were put into effect to make the wage system more flexible. The close connexion between enterprise profits and wage changes were suspended in coal mining and reduced in the electric power industry. The wage-block system (which in the framework of the total wage bill authorizes enterprise managers to take decisions concerning the size and required qualifications of the staff) was, after several years' experience in food industry, State farms, railway and local transport, introduced in fourteen major industrial and construction enterprises.

Incentives to work beyond retirement age are provided for by the new (1972) pension scheme—by granting a 7 per cent increase in pension for each year of prolonged service to manual workers and a 3 per cent increase in pension for each additional year to office workers. New social policy measures, effective from 1 January 1974, grant additional allowances and provide special family benefits, particularly for large families.

The introduction of a new wage and premium system is progressing in Poland in the framework of a major experimental planning and management scheme which in its initial (1973) stage covered 28 combines and associations. The increase in the wage fund, in the new system, is related to increases in productivity. The increase in profits is the basis for calculating additions to the premium and enterprise development fund; the size of the wage fund, the basis of allocations to the social and housing fund.

The implementation of the less broadly conceived programme of limited wage adjustments is also continuing. This programme, which according to the 1971-1975 Plan should in five years have raised 4.6 million earnings in State and co-operative enterprises, brought wage increases to 6.5 million wage- and salary-earners in 1971-1973. This programme is scheduled to continue by successive stages in 1974 and 1975—bringing wage increases to a further 4.5 million earners and covering, eventually, all sectors of the socialist economy.[83]

The new social policy programme, to become effective on 1 August 1974, provides for increases in the minimum wage (from 1,000 zlotys to 1,200 zlotys), in the minimum rate of pensions (to 1,100 zlotys) and in some family allowances. Further increases are foreseen in family allowances on 1 January 1975. Pension rates are scheduled to increase gradually in the course of 1975-1980. The introduction of a new labour code is foreseen to complement these wage and social policy measures. In the control of its application an important role is expected to be given to the trade unions.

A programme of general wage increases was put into effect in Romania in the second half of the year. The share of wages exceeding 1,300 lei, in consequence, increased by 50 per cent in comparison with the previous year.

The implementation of the end-1972 wage policy measures in Bulgaria brought wage increases of 26 per cent for miners, below-ground construction workers and other heavy physical workers and of 17 per cent for master miners, foremen and subsidiary technical personnel. Wage supplements were also raised for those working in particularly difficult conditions (by 15 and 10 leva monthly). The salaries of teaching personnel were raised by 17-22 per cent, of qualified health personnel by 16 per cent. The lower limit of minimum wages also was raised (from 65 leva to 80 leva per month).

(iii) Retail prices

Retail price and consumer price indexes were remarkably stable in eastern Europe in 1973 (table 4.4). The consumer price index in the German Democratic Republic showed practically no change. The change was one-quarter to one-half per cent in the Soviet Union, where there was a slight downward adjustment, and in Czechoslovakia, where the adjustment was in an upward direction. The upward movement was one per cent or less in the retail price index of Romania and in the cost-of-living index of Poland. The upward movement of the consumer prices in Hungary this year was again more accentuated than in the other countries.

The retail price level was firmly maintained in the Soviet Union in 1973 and even relative price changes were rare. In December 1973, prices of high quality furs and of fresh water fish and caviar were raised by 15 per cent. At the same time prices of some clothing articles were reduced.

The reported price indexes of Czechoslovakia and the German Democratic Republic also indicate a policy of strictly maintained retail prices. In Czechoslovakia, retail prices of foodstuffs have remained unchanged for many years. Prices of textile products and some other types of consumer manufactures were lowered from May 1970 to the end of 1973 with an estimated annual income effect of Kčs 1.6 billion (which is about one per cent of total retail trade turnover). Price adjustments last year for some luxury goods included increases in the prices of gold jewellery more or less in line with the increase of gold prices on world markets. Prices of motor-cars, by contrast, have been lowered by an average of 14 per cent with an estimated annual income effect of Kčs 1 billion.

In the German Democratic Republic consumer prices are envisaged to remain stable up to 1975 with a reduction of prices of some goods. Price policies in these two countries maintained strict controls; increasing consumer demand is to be met primarily by increasing supplies of commodities in strong demand.

Some elements of flexibility were apparent in the price policies followed recently by Poland. The price freeze for basic food products was extended to 1973 and 1974. But it did not exclude some price changes, e.g. of newly developed goods of higher quality or of imported goods. Some price increases were, moreover, introduced in January 1974, simultaneously with the announcement of the new social policy programme. The price of high octane petrol was raised from 6.50 zlotys to 11 zlotys per litre, of average petrol from 5 zlotys to 9 zlotys per litre, and the long-distance bus service tariff by 25 per cent. There was a rise in the price of restaurant meals and a price increase for wine, hard liquor and other alcoholic beverages by 23-33 per cent.[84]

Price policy in Hungary has been aiming at the development of a consumer price system corresponding to production costs for some years. However, this aim is being pursued with extreme caution and it is envisaged

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[83] *Trybuna Ludu*, 20-21 January 1974 and 13 March 1974.

[84] *Trybuna Ludu*, 20-21 January 1974.

TABLE 4.4

Retail price index and the cost of living

(Preceding period = 100)

Country and period	*Retail price index*					*Cost of living*
	Total	*Food*	*Non-food*	*Public catering*	*Other services*	
Czechoslovakia [a]						
1971	99.5	99.8	98.5	101.1	100.5	99.6[b]
1972	99.7	99.8	99.7	99.8	99.7	99.6[b]
1973	100.3	..	..	..	..	99.7[b]
1970-1973	99.5	..	..	..	..	98.9[b]
German Democratic Republic [a]						
1971	100.3	101.6	98.7	..	100.4	100.3
1972	99.7	99.5	99.5	..	100.3	99.6
1973	99.6	99.6	99.7	..	100.0	99.6
1970-1973	99.6	100.7	97.9	..	100.7	99.5
Hungary [a b]						
1971	102.0	102.2	101.8	..	104.5	..
1972	102.8	101.8	103.0	..	103.5	..
1973	103.5	105.2[c]	101.9	..	102.3	..
1970-1973	108.6	..	106.8	..	110.6	..
Poland						
1971	100.4	101.2[c]	101.5*	100.9	100.7*	99.8
1972	100.0	99.4[c]	99.9*	98.9	100.8*	99.8
1973	..	..	..	..	..	100.8*
1970-1973	..	..	..	..	..	100.4*
Romania						
1971	100.6	101.5	..	..	..	..
1972	100.0	100.5	..	..	..	..
1973	101*	..	..	..	..	..
1970-1973	101.6*	..	..	..	..	..
Soviet Union						
1971	100	101	99	..	..	..
1972	100	100	99	..	..	..
1973	99.8*	..	..	..	..	..
1970-1973	99.8*	..	..	..	..	..

Sources: as for table 4.1.

[a] Consumer price index (except for non-food in Hungary).

[b] Refers to wage- and salary-earners' families.

[c] State and co-operative trade (excluding free food market).

that the final stage of this policy will be reached in a period of not less than ten to fifteen years.[85] Price policy measures thus account for most of the 1973 increases in the consumer price index. One important factor was the rise in the retail prices of milk and dairy products which passed on to the consumer a part of the increased procurement prices. Another factor was the increase in the prices of liquor and tobacco. There was also an unforeseen increase in fruit and vegetable prices because of an extremely poor harvest in this sector of agriculture. The downward adjustment of the retail prices of some manufactured products (mainly textiles and durables) was designed partly as a compensation for these price increases.

The maintenance of retail price stability in conditions of increased import and procurement prices, is supported mainly by higher budgetary subsidies (for an approximate assessment of relevant orders of magnitude see the text-table below).

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[85] See also *Economic Survey of Europe in 1971*, part II, p. 84, and *Economic Survey of Europe in 1972*, p. 101.

Budgetary subsidies in the consumer sector in relation to retail trade turnover (1973)

(Billions of national currency units)

	Subsidies	*Retail trade turnover*	*Subsidies as a percentage of retail trade turnover*
German Democratic Republic .	11	75	15
Hungary	20	177	11
Poland (food)	30	266*	11*

Sources: *Neues Deutschland*, 27 December 1973; *Népszabadság*, 22 March 1973; *Trybuna Ludu*, 23 October 1973.

NOTE.— The information is of a roughly indicative nature because it was not possible to obtain data on subsidies excluding those paid on public utility charges and for Hungary rent.

Subsidies in the food sector in Poland amounted in 1973 to more than 10 per cent of the value of food retail sales. Subsidies in the retail trade and public utility sector in the German Democratic Republic were most probably of an even greater weight. They supported stable retail prices of basic foodstuffs, some consumer manufactures, coal and also stable transport charges. Retail price stability in Hungary was maintained for basic foodstuffs (where, on the average, subsidies amounted to 35 per cent of price receipts) and also for passenger transport charges (where the rate of subsidy was 65 per cent).[86]

In considering adaptation of supplies to consumers' demand in conditions of price stability, account has to be taken of two factors. There is motivation on the part of enterprises to avoid extending their production in commodities preferred by consumers if this reduces their profits and, consequently, premia and profit shares of management and staff. The resulting supply inelasticities may lead to a distortion of consumption patterns. The consumers' satisfaction, in these conditions, may be lower than could be provided at the same cost. On the other hand, low-priced commodities give rise to the phenomenon of what is frequently referred to as consumers' surplus.

(iv) Retail sales

The total volume of retail sales expanded fast in eastern Europe. Growth was fastest in Poland (12-13 per cent), practically in step with the increase in money incomes. It was between 7 and 9 per cent in Romania and Bulgaria, but in Romania was less than the expansion in money incomes. In the Soviet Union, Czechoslovakia, the German Democratic Republic and Hungary it was between 5 and 6 per cent. In the Soviet Union, Czechoslovakia and Hungary (at current prices) the increase was somewhat below the increase in money incomes. Retail trade expansion, on the other hand, exceeded that of incomes in the German Democratic Republic (table 4.5 and table 4.1).

Considering the 1971-1973 period, the same tendencies are apparent. The growth of retail trade and of money incomes was balanced in the Soviet Union, the German Democratic Republic, Czechoslovakia and Romania. Retail trade expansion in Poland was closer to income expansion last year than it was in the three years taken together. Expansion of trade and incomes at current prices in these years was balanced in Hungary. The three-year expansion in the volume of retail trade was more or less in line with what was planned for 1971-1975. The actual performance was close to the planned rate in Czechoslovakia and Romania, faster than foreseen in Poland, Bulgaria and the German Democratic Republic, and lower than the planned rate in the Soviet Union and Hungary.

The available data on the commodity structure of retail sales shows a smooth response of supplies to increased money incomes in a number of east European countries (tables 4.7 and 4.8). In the food sector, in the Soviet Union supplies expanded swiftly in response to rising demand for milk and dairy products, for fresh fruit and vegetables and for fish and fish products. The response was less active for potatoes, meat and meat products. For milk and dairy products, the response was slower to much increased purchasing power in Poland and Romania. In Hungary, after the retail price increase, turnover in milk and butter declined.

Available information indicates that retail sales of meat and meat products increased more slowly than money incomes (table 4.10). The main difficulty in providing meat supplies in accordance with rising consumption (e.g., in Poland, rise from 53 kg per inhabitant in 1970 to 62 kg in 1973) seems to be limitations of domestic and imported fodder supplies at given prices. Fresh fruit and vegetable supplies met with difficulties in many east European countries. Explicit reference to shortages has been made in the German Democratic Republic.

Available indicators of retail turnover in manufactured consumer goods in the Soviet Union, and equally in the Ukrainian SSR, show a continuing fast expansion of footwear sales but a slowing down of sales of textiles and clothing. Retail sales of footwear in Poland remained at the previous year's level while retail sales of ready-made clothing and most textile articles expanded fast. However, shortages in this sector still appear in a number of countries in spite of a great concentration on productive efforts to respond to this demand. In the German Democratic Republic, for example, there were significant rises in the supply of knitwear, shoes, furniture and carpets, but, apart from shoes, all these commodities remained in short supply.[87]

In response to sharply increasing demand, increases in supply of some durable consumer goods far exceeded the rate of income expansion in the Soviet Union and other east European countries. Motor-car sales reached more than 100,000 in Czechoslovakia, about 80,000 in Poland and Hungary, and nearly 700,000 in the Soviet Union.

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[86] *Figyelő*, 27 February 1974.

[87] Articles in short supply in Poland include mixed-fibre fabrics, curtains and carpets. In Bulgaria, shortages of some types of cotton and woollen fabrics, knitwear and furniture were reported in 1973

TABLE 4.5

Volume of retail sales

Country and period	Annual percentage changes: Total	Food	Non-food	Annual percentage changes: Total	Food	Non-food
	Bulgaria			*Czechoslovakia*		
1970 over 1965	8.6	6.4	10.4	6.3	4.6	8.3
1971	6.5	6.1	6.8	5.5	4.0	7.0
1972	6.6	5.4	7.5	6.0	5.4	6.5
Plan 1973	7.5	..	..	4.4[ab]	..	..
1973	8.6	..	..	5.6[ab]	..	..
Plan 1974	8.5	..	..	5.5	3.9	7.2
1973 over 1970	7.2	..	..	5.7*	..	..
Plan 1975 over 1970	6.8	..	..	5.1-5.4	3.4	7.0
	German Democratic Republic			*Hungary*		
1970 over 1965	4.6	4.3	5.0	8.9	7.4	10.4
1971	3.9	2.9	5.1	7.6	6.8	8.3
1972	6.0	4.1	8.3	3.3	3.9	2.3
Plan 1973	6.2	4.2	8.7	6.2	..	..
1973	5.8	3.2	8.8	5.7	3.6	7.6
Plan 1974	5.2	4.0	6.0	ca.6.5	..	..
1973 over 1970	5.2	3.4	7.4	5.5	4.8	6.0
Plan 1975 over 1970	4.1	..	..	6.0-6.3	..	..
	Poland			*Romania* [ab]		
1970 over 1965	6.2	5.8	6.5	7.4	7.7	7.2
1971	8.1	7.5	8.6	9.5	12.4	6.7
1972	12.4	9.6	14.5	6.1	5.7	6.5
Plan 1973	10.6	8.8	11.6	4.3	..	..
1973	12.6[b]	..	..	7.8	..	..
Plan 1974	..	..	..	6.1	..	..
1973 over 1970	11.1[b]	..	..	7.8	..	..
Plan 1975 over 1970	7.4[c]	7.0[c]	8-9[c]	7.0-8.0	..	..
				Total		
	Soviet Union			*Byelorussian SSR*	*Ukrainian SSR*	
1970 over 1965	8.2	7.3	9.5	11	8.3	
1971	6.8	6	8	9	7	
1972	6.9	5	8	9	7	
Plan 1973	5	..	..	6.3	5.6	
1973	5.3	..	..	6.3	5.7	
Plan 1974	6.3	..	..	7.3	6.3	
1973 over 1970	6.4	..	..	8.1	6.6	
Plan 1975 over 1970	7.2	..	..	..	..	

Sources: as for table 4.1.

NOTES.— For Czechoslovakia and the German Democratic Republic including sales on free food markets and in private retail trade. Turnover at constant prices—if not shown otherwise.

Information for the 1971-1975 Plans refer either to the Plan law or the relevant Party directives.

[a] At current prices.

[b] State and co-operative trade.

[c] Supplies to retail trade.

Supply conditions permitted a fast growth of retail sales in the whole range of consumer durables in Poland, whereas in Hungary increased expenditure was concentrated on motor-cars.

Consumer-goods imports contributed substantially to a rise in retail supplies in all east European countries: at rates between 8 per cent of total retail sales in Bulgaria and 17 per cent in Hungary (some of this trade being transacted through direct exchanges between national retail trade organizations).

(v) Consumers' savings and finance

Savings deposits in the Soviet Union and in Hungary increased by 13 to 14 per cent in 1973 in comparison with the stock of savings at the end of the previous year. In Romania, the increase was faster (by 19 per cent). No information is available on changes in the stock of savings in the other east European countries. The incremental savings-to-income ratio in the Soviet Union stood at about 0.5, which means that one-half of each per cent of the increase in money incomes was deposited in the States saving system. In Hungary, one-third of the added income was deposited in savings accounts (table 4.8).

The motives to save vary considerably in east European countries. The main attraction of savings in conditions of price stability is, at this stage, acquisition of dwellings or the purchase of motor-cars. The negative inducement, i.e. the impossibility of purchasing desired consumer goods, appears to be diminishing in importance. Consumer credits are an important source of demand, for instance, to newly-married couples in Czechoslovakia or for motor-car purchases in the German Democratic Republic. A substantial part of savings is channelled, however, by the saver himself or by credit institutions to housing construction.

(vi) Housing

Housing construction in 1973 continued to expand in the Soviet Union and the other east European countries. Altogether 3 million dwellings were constructed in the area as compared with 2.9 million dwellings the year before. The increase in the Soviet Union was 3 per cent, and in the other east European countries 4.7 per cent. The increase was particularly fast in Poland, Bulgaria and the German Democratic Republic (table 4.9).

In all countries the number of dwellings constructed in 1973 was greater than the average for 1966-1970. The number of dwelling units constructed in relation to population numbers was 921 dwellings per 100,000 inhabitants in the Soviet Union, more than 800 dwellings per 100,000

TABLE 4.6

Retail sales of selected consumer goods

(Annual percentage changes)

	Bulgaria		*Czechoslovakia*		*German Democratic Republic*		*Hungary a*		*Poland*	
	1972	*1973*	*1972*	*1973*	*1972*	*1973*	*1972*	*1973*	*1972*	*1973*
Cereal products	..	..	−7	..	..	..	5 [c]	−2 [c]	..	..
Potatoes	5	7	−3	..	−1	−1	−2	−2	..	..
Fresh vegetables	−1	9	5	..	6	5	−2	..	17	..
Fresh fruit	7	−4	13	..	22	−2			24	..
Sugar	15	4	—	..	2	3	6	7	4	2
Meat	6	12	3	..	5	4	22	5	11	8
Meat products	—	13					8	11	17	..
Eggs	4	—	1	..	—	3	—	—	−7	7
Milk	5	6	2	..	—	4	12	−5	7	5
Cheese	7	8	5	..	4	6	7	..	20	17
Butter	6	8	—	..	−1	−1	−2	−24	13	7
Total animal fats	−7	1	2	..	−1	−5	−4	15	..	1
Vegetable fats and oils	—	3	3	..	2	3	24	38	..	7
Fish and fish products	−1	18	11	..	—	4	..	..	..	7
Coffee	..	..	5	..	2	−2	10	..	..	..
Tea	..	..	1	..	..	7	−5	..	..	..
Wine	..	..	7	..	5	8	−1	..	..	7
Hard liquor	..	..	8	..	6	9	..	..	..	10
Beer	..	..	1	..	..	..	−5	..	..	9
Cotton fabrics	4	..	−2	..	..	..	−11	24	−3	−7
Woollen fabrics	7	..	8	..	..	..	−9	5	−6	13
Other fabrics	10 [d]	..	1	..	..	..	7	−5	3 [d]	9 [d]
Ready-made clothing	10	..	3	..	..	..	7	..	14	14
Footwear	7	..	1	..	18	18	5	..	5	−1
Radio sets	2	..	—	..	16	16	−6	..	15	17
Television sets	−13	..	−5	..	1	24	−13	..	34	13
Washing machines	−23	..	12	..	−5	17	−7	..	−5	4
Sewing machines	−19	..	7	..	..	..	−8	..	−5	..
Vacuum cleaners	2	..	..	..	1	30	−5	..	−6	..
Refrigerators	−2	..	−16	..	11	..	—	6	14	21
Bicycles	34	..	23	..	2	..	−16	9	15	18
Motor-cycles, scooters	−6	..	−35	..	8	..	−5	3	29 [e]	28 [e]
Motor-cars	9	..	−12	..	5	..	12	35	23	22
Watches	5	..	−1	..	1	..	−3	..	−7	..
Furniture	11	..	−1	..	11	36 [f]	6	7	7	17

TABLE 4.6 *(continued)*

Retail sales of selected consumer goods

(Annual percentage changes)

	Romania		*Soviet Union*		*Byelorussian SSR*		*Ukrainian SSR*	
	1972	*1973*	*1972*	*1973 b*	*1972 b*	*1973 b*	*1972 b*	*1973 b*
Cereal products	−2	..	2	—	1	5	..	2
Potatoes	−11	..	15	−1	..	..	..	−3
Fresh vegetables	..	..	−2	19	..	..	3	4
Fresh fruit	..	..	2	7	..	..	5	−5
Sugar	4	9*	—	4	−6	16	—	7
Meat	11	4*	} 7	3	11	5	10	7
Meat products	10	..						
Eggs	..	..	13	13	32	24	17	18
Milk	6	2*	..	6	10	9	3	6
Cheese	13	10*	..	6	2	—	5	12
Butter	2	5*	..	8	1	13	−1	11
Total animal fats	2	..	..	..	..	..	..	..
Vegetable fats and oils	2	..	—	5	..	7	..	5
Fish and fish products	−1	..	2	10	1	..	..	..
Coffee	..	..	..	..	..	..	..	..
Tea	..	..	8	4	..	..	..	10
Wine	3	..	..	..	..	..	..	..
Hard liquor	−8	..	6	..	..	..	..	..
Beer	2	..	..	..				
Cotton fabrics	12	..	−5 } 6	3	8	4	6	2
Woollen fabrics	5	..	13					
Other fabrics	15	..	..					
Ready-made clothing	..	..	6					
Footwear	6	..	4	6	11	3	5	5
Radio sets	4	..	2	—	2	1	8	—
Television sets	−10	..	9	−10	13	−8	6	−12
Washing machines	6	..	−15	−1	−12	−10	−18	3
Sewing machines	8	..	—	−2	−3	3	1	−6
Vacuum cleaners	..	..	18	21	7	15	−5	25
Refrigerators	6	..	7	9	15	8	13	6
Bicycles	..	..	1	1	5	3	6	−3
Motor-cycles, scooters	..	..	—	3	8	—	−1	3
Motor-cars	−1	..	119	39	74	56	71	41
Watches	..	..	1	4	7	−2	4	4
Furniture	7	..	7	8	10	9	7	6

Sources: as for table 4.1.
a Nine months only.
b Value of sales at current prices.
c Only flour.
d Silk fabrics.
e Motor-cycles only.
f Eight months only.

inhabitants in Czechoslovakia and Hungary; it remained lower than in the other countries, being less than 500 per 100,000 inhabitants in the German Democratic Republic.

In recent years, the housing problem and housing construction have taken on a new dimension: efforts have been made to improve quality standards. This is reflected in a favourable change in the size of dwellings and built-in facilities. In the German Democratic Republic, where the housing situation is favourable (the number of dwellings is 364 per thousand inhabitants), considerable attention is being given to reducing the average age of the dwelling stock: about 110,000 old dwellings are to be modernized up to 1975. In Hungary in the 1966-1970 period the proportion of newly-built dwellings which had two or more rooms was 86 per cent; and it rose to over 90 per cent in 1971 and 1972. In Poland, the housing standards prepared in 1973 foresee a floor space for one person of 25-28 square metres, for three persons 44-48 and for five persons 65-70 square metres. In Romania, according to the new Law on housing management, the standard for living space per person was increased from 8 to 10 square metres. In the Soviet Union the range of standardized types of flats has been increased to 10 instead of the 6 to 7 previously. Five-room flats are being constructed in residential buildings. The total floor space per flat was raised by 6-8 square metres; the average floor space per person to 14-15 square metres. It is anticipated that the share of 3-5 room flats will increase.

Table 4.7

Ratio of the percentage change in retail sales to percentage change in money income

	Bulgaria	*Czecho-slovakia*	*German Democratic Republic*		*Hungary*		*Poland*		*Romania*		*Soviet Union*	
	1972	*1972*	*1972*	*1973*	*1972*	*1973*	*1972*	*1973*	*1972*	*1973*	*1972*	*1973*
Cereal products	..	−1.17	..	..	0.68	−0.20	..	..	−0.29	..	0.33	0.07
Potatoes	1.13	−0.42	−0.20	−0.14	−0.33	−0.20	..	..	−1.52	..	2.46	−0.16
Fresh vegetables	−0.18	0.90	0.98	0.91	−0.25	..	1.24	..	..	..	−0.33	3.11
Fresh fruit	1.68	2.13	3.54	−0.36		..	1.72	..	..	..	0.33	1.15
Sugar	3.63	−0.05	0.34	0.61	0.79	0.70	0.28	0.18	0.57	0.95	—	0.66
Meat	1.43	0.53	0.84	0.79	3.04	0.50	0.80	0.59	1.42	0.44	1.15	0.49
Meat products	—				1.06	1.10	1.21	..	1.26	..		
Eggs	0.95	0.10	—	0.48	—	—	−0.52	0.55	..	..	2.13	2.13
Milk	1.13	0.30	—	0.70	1.65	−0.50	0.53	0.42	0.81	0.18	0.49	0.98
Cheese	1.73	0.83	0.61	1.05	0.93	..	1.42	1.27	1.65	1.04	1.15	0.98
Butter	1.53	−0.06	−0.23	−0.23	−0.32	−2.40	0.91	0.57	0.28	0.54	0.33	1.31
Total animal fats	−1.68	0.30	−0.23	−0.89	−0.51	1.50	..	..	0.28	..	..	..
Vegetable fats and oils	−0.03	0.57	0.39	0.39	3.38	3.80	..	0.53	0.26	..	—	0.82
Fish and fish products	−0.35	1.75	−0.03	0.80	..	..	..	0.53	−0.18	..	0.33	1.64
Coffee	..	0.90	0.36	−0.30	1.43	..	..	..	..	..	1.31	0.66
Tea	..	0.23	..	1.25	−0.72	..	..	..	..	..		
Wine	..	1.18	0.77	1.38	−0.18	..	..	0.52	0.34	..	—	..
Hard liquor	..	1.33	0.95	1.57	..	..	..	0.79	−1.05	..	0.98	..
Beer	..	0.22	..	..	−0.75	..	.	0.66	0.25	..	..	..
Cotton fabrics	0.95	−0.30	..	..	−1.46	2.40	−0.23	..	1.56	..	−0.82 0.98	.. 0.49
Woollen fabrics	1.80	1.35	..	..	−1.18	0.50	−0.44	1.02	0.69	..	2.13	..
Other fabrics	..	0.22	..	..	1.00	−0.50	0.19	0.66	1.97	..	..	..
Ready-made clothing	..	0.53	..	..	0.93	..	1.00	1.05	..	..	0.98	..
Footwear	1.85	0.17	2.98	3.23	0.64	..	0.33	..	0.77	..	0.66	0.98
Radio sets	0.53	—	2.70	2.88	−0.83	..	1.13	1.28	0.57	..	0.33	—
Television sets	−3.23	−0.82	0.23	4.35	−1.79	..	2.51	0.96	−1.37	..	1.48	−1.64
Washing machines	−5.70	2.03	−0.90	2.96	−0.97	..	0.35	0.30	0.81	..	−2.46	−0.16
Sewing machines	−4.68	1.23	..	..	−1.11	..	−0.38	..	1.01	..	—	0.33
Vacuum cleaners	0.43	..	0.18	5.40	0.63	..	−0.41	..	..	..	2.95	3.44
Refrigerators	−0.38	2.72	1.82	1.80	—	0.60	1.01	1.58	0.84	..	1.15	1.48
Bicycles	8.58	3.90	0.26	0.82	−2.17	0.90	1.07	1.35	..	..	0.16	0.16
Motor-cycles, scooters	..	5.90	1.26	2.73	−0.72	0.30	2.15	2.15	..	..	—	0.49
Motor-cars	2.23	−2.00	0.72	3.11	1.64	3.50	1.65	1.72	−0.06	..	14.51	6.39
Watches	1.23	−0.20	0.16	..	−0.40	..	−0.39	..	..	..	0.16	0.66
Furniture	..	−0.18	1.74	3.71	0.86	0.70	0.50	1.32	0.89	..	1.15	1.31

Sources: tables 4.1 and 4.6.

NOTE.— Consider footnotes to table 4.6.

TABLE 4.8

Accumulation of savings deposits

Country and year	End-year amount in billions of national currency units	Annual percentage change	Incremental savings-to-income ratio
Bulgaria			
1970	3.9	16.6	0.6
1971	4.5	15.4	0.6
1972	5.5	16.1	0.65
Czechoslovakia			
1970	63.5	17.8	0.7
1971	73.8	16.3	0.6
1972	85.5	15.7	0.6
German Democratic Republic			
1970	52.1	8.5	0.6
1971	55.7	6.9	0.6
1972	60.0	7.6	0.5
1973	65.1	8.6	
Hungary			
1970	42.1	19.9	0.3
1971	48.4	15.0	0.3
1972	54.5	12.6	0.4
1973	62.0	13.7	0.3
Poland			
1970	97.2	11.9	0.3
1971	112.5	15.8	0.3
1972	139.6	24.0	0.3
Romania			
1973	..	18.9	
Soviet Union			
1970	46.7	21.3	0.4
1971	53.4	14.2	0.4
1972	60.9	14.1	0.4
1973	68.8	13.0	0.5

Sources: as for table 4.1.

NOTE.—The incremental savings-to-income ratio is obtained by dividing into the increase in the amount of savings the increase in the amount of money incomes.

New tendencies have appeared in recent years in respect of housing finance. The preponderant share of State and co-operative housing was increased in the Soviet Union. However, the share increased in the financing of housing of co-operative funds in the German Democratic Republic and of private funds (supported by State credit) in Hungary and Romania. Also new regulations were issued concerning co-operative and private housing finance.

In Czechoslovakia there are regulations concerning State financial assistance for family house building on housing estates. The builder of such houses receives from the national committee 400 square metres free of charge, an interest-free loan of Kčs 35,000, a subsidy of Kčs 8,000 and a premium of Kčs 4,000 if the house is finished in three years, i.e. a total representing some 20-30 per cent of construction costs. The remaining costs can be covered by loans from the National Savings Bank at a 1 per cent rate of interest, and with an amortization period of 30 years.

Particular attention is being devoted to meeting the housing demands of workers' families in Hungary. According to the new regulations which came into force in 1973, a worker constructing an individual dwelling has to deposit 10 per cent of construction costs as a general rule. A further 20 per cent can be financed through enterprise credit and the rest through a loan from the National Savings Bank at a 1 per cent rate of interest and with an amortization period of 35 years. Special conditions also apply to large families and young couples.

Favourable changes took place in housing credit in Poland. In the case of housing co-operatives, the amount of housing deposit was set at 16-20 per cent. The remaining part of construction costs is covered by interest free bank credit granted for a period of 60 years (previously 40 years). In the case of individual housing construction, the deposit was reduced from 25-30 per cent to 20 per cent. The amortization period is 30 years (instead of 25 years). In Romania, the credit granted by the State for housing construction can rise to a maximum 80 per cent of construction costs, repayable in 15 to 25 years at an interest rate of 2 to 5 per cent (depending on the applicant's wage).

The long-term perspectives of housing development were elaborated and long-term housing construction programmes were approved in a number of east European countries. They influence significantly medium-term and annual housing plans, policy programmes and construction activity. The common aim in most of these programmes is that by 1980-1985 each family should have a separate dwelling, and by 1985-1990 each member of a family a separate room.

Among these long-term programmes the first was the 15-year housing development plan for 1961-1975 of Hungary, which set the aim of building one million flats by 1975. This housing construction plan will be overfulfilled. (During the 13 years 833,000 dwellings have been built, of which 250,000 in the past three years.)

A prospective housing programme was elaborated in 1972 in Poland. According to this plan, at least 4.5-4.8 million dwellings are to be constructed in 1971-1985, and 6.6-7.3 million in 1971-1990. The number of dwellings to be constructed in 1971-1990 is almost equivalent to the dwelling stock in 1970, and more than twice as many as were constructed during the whole 1945-1970 period.

In 1973 it was decided to prepare a long-term dwelling construction programme in the German Democratic Republic. The decision was taken to build and modernize 2.8-3.0 million dwellings between 1976 and 1990, and thus to solve the housing problem by 1990. During the next Five-year-Plan (1976-1980) 700,000 or 800,000 dwellings should be constructed, of which 550,000 to 570,000 should be newly built. This would improve housing conditions for 2.1 million people.

(vii) Real incomes

Real incomes increased by 5 per cent in 1973 in the Soviet Union and Czechoslovakia. They are reported to

TABLE 4.9

Dwelling construction

Country and period	Dwellings constructed						Average size of dwellings constructed in square metres
	Total		Percentage distribution				
	Thousand units	Million sq. metres of useful housing space	State	Co-operative	Private [a]	Units per 100,000 of inhabitants	
Bulgaria							
1966-1970	44.3	2.12	27.8		72.2	530	61.87
1971	48.9	3.16	29.0		71.0	572	64.70
1972	46.5	2.96	32.9		67.1	542	63.66
Plan 1973	..	..	..		..	..	..
1973	50.9	..	..		..	..	..
Plan 1974	67.0	..	..		..	..	..
1971-1973	48.7	..	..		..	..	..
Plan 1971-1975	50.0	..	..		..	..	..
Czechoslovakia							
1966-1970	87.8	5.62*	18.0	57.1 [b]	24.9	613	64.0*
1971	107.4	7.48*	15.7	56.8 [b]	27.5	745	69.6*
1972	116.2	8.16*	20.3	52.0 [b]	27.7	802	70.2*
Plan 1973	111.3	..	..	..	..	..	..
1973	117.5	..	20.2	52.6 [b]	27.2	806*	..
Plan 1974	119.0	..	..	..	..	..	..
1971-1973	113.7	..	18.8	53.7 [b]	27.5	784*	..
Plan 1971-1975	c.100.0	..	..	..	..	..	..
German Democratic Republic [c]							
1966-1970	59.3	3.92	..	25.3	..	348	53.8
1971	65.0	4.40	79.4	17.2	3.4	381	57.8
1972	69.6	4.91	68.4	28.2	3.4	408	57.1
Plan 1973	79.1	..	..	..	..	465	..
1973	80.7	..	..	..	..	475	..
Plan 1974	86.5	..	44.0	47.5	8.5	509	..
1971-1973	71.8	..	..	..	..	421	..
Plan 1971-1975	..	..	..	..	..	..	..
Hungary							
1966-1970	65.5	3.88	37.3		62.7	640	59.2
1971	75.3	4.72	29.9		70.1	730	62.7
1972	90.2	5.72	32.7		67.3	870	63.4
Plan 1973	81-82	..	..		..	..	..
1973	85	..	35 *		65 *	810	..
Plan 1974	86	..	..		..	..	..
1971-1973	83.5	..	33 *		67 *	803	..
Plan 1971-1975	80.0	..	..		..	..	..
Poland							
1966-1970	188.4	9.8	29.2	44.0	26.8	585	51.7
1971	190.6	10.6	22.5	49.1	28.4	581	55.8
1972	205.5	11.3	24.2	50.6	25.2	621	55.2
Plan 1973	c.225	..	..	..	..	..	..
1973	220.5	..	..	..	..	660*	..
Plan 1974	246.0	14.0	..	..	..	..	56.9
1971-1973	205.5	..	..	..	..	621*	..
Plan 1971-1975	c.216	..	..	..	..	..	..

TABLE 4.9 *(continued)*

Dwelling construction

Country and period	*Dwellings constructed* *Total* *Thousand units*	 *Million sq. metres of useful housing space*	 *Percentage distribution* *State*	 *Co-operative*	 *Private* [a]	 *Units per 100,000 of inhabitants*	*Average size of dwellings constructed in square metres*
Romania							
1966-1970	141.9	6.33	43.2		56.8	..	44.6
1971	150.2	7.11	37.0		63.0	730	47.4
1972	140.6	7.08	37.8		62.2	680	50.4
Plan 1973	..	..	..		..	..	..
1973	145.6	..	37.7		62.3	690	..
Plan 1974	..	..	..		..	..	..
1971-1973	145.5	..	37.5		62.5	700	..
Plan 1971-1975	..	..	..		..	..	..
Soviet Union							
1966-1970	2267	103.7	71.8		28.2	951	
1971	2256	107.6	77.3		22.7	921	47.7
1972	2233	106.7	78.5		21.5	902	47.8
Plan 1973	..	117.6	..		..	..	..
1973	2300	109.0	..		..	921	47.4
Plan 1974	..	113.4	..		..	..	..
1971-1973	2263	107.8	..		..	914	47.6
Plan 1971-1975	..	116	..		..	950	..

Sources: as for table 4.1; and *Annual Bulletin of Housing and Building Statistics for Europe.*

NOTE.— Total useful floor space of newly constructed and reconstructed dwellings in residential and non-residential buildings. The coverage is narrower in Czechoslovakia and the German Democratic Republic where the information refers to useful floor space in newly constructed residential buildings. The data in physical units are annual averages.

a Financed from State credit and auto-financing of individual dwelling owners.

b Including dwelling co-operatives, enterprises and co-operative farms.

c The following is the information on *(a)* reconstructed dwellings (together with dwellings in non-residential buildings) and *(b)* the comprehensive total for newly constructed and reconstructed dwellings:

	(a)	*(b)*
1966-1970	13.5	72.8
1971	18.8	83.8
1972	47.4	117.0
Plan 1973	19.2	105.7
1973	45.1	125.8
Plan 1974	30.3	116.8
1971-1973	37.1	108.9
Plan 1971-1975	..	100.0

have increased at a higher rate in Bulgaria (7.9 per cent) and at a somewhat lower rate in Hungary and Romania (around 4.5 per cent). The 1971-1975 Plans for the increase of per capita real incomes are being substantially exceeded in Czechoslovakia and are being fulfilled in Bulgaria. Hungary is approaching its plan for the expansion of real incomes.

The three-year (1971-1973) increases in per capita real incomes indicate total increases of 13-19 per cent for Hungary, the Soviet Union, Bulgaria, Czechoslovakia and Romania.

Real income per head of population

(Annual percentage changes)

Period	*Bulgaria*	*Czechoslovakia* *a*	*German Democratic Republic*	*Hungary*	*Poland*	*Romania*	*Soviet Union*
1966-1970	6.1	5.9	4.2	6.2	5.2	5.5	6.0
1971	4	5.3	4.1	4.5	8.6	7	4.5
1972	4	5.8	..	3.1	10.5	6.5	3
Plan 1973	6.5	ca.6	..	4.5-5	9-10*	8	4.5
1973	7.9	5-6*	..	5	..	4.4	5
Plan 1974	4.8	..	..	5-5.5	..	8.6	5
1971-1973	5.3	5½*	..	4.3	..	6	4.4
Plan 1971-1975	4.6-5.4	4.5	4.1	4.6-4.9	6.0 *b*	7.0-7.9	5.6

Sources: as for table 4.1.

a Money income in real terms.

b Consumption of goods and services per head of population.

TABLE 4.10

Per capita consumption of selected consumer goods

(In physical units or value)

	Bulgaria	*Czechoslovakia*	*German Democratic Republic*	*Hungary*	*Poland*	*Romania* [a]	*Soviet Union*
Food, beverages (per inhabitant)							
Cereal products (kilograms)	173	(150)	96	127	127	107	147
Potatoes (kilograms)	..	(103)	146	70	187	21	122
Fresh vegetables (kilograms)	116	(54.5)	66.8	156	..	..	80
Fresh fruit (kilograms)	..	(34.8)	36.7		..	..	36
Sugar (kilograms)	31.6	(37.7)	34.9	35.3	40.9	13	38.8
Meat (kilograms)	51.7	(71.9) [b]	70.8	61.7	59.3	12	51
Meat products (kilograms)		(17.6)			..	6.3	..
Eggs (pieces)	126	(277)	240	14 [c]	196	..	188
Milk (litres)	176 [d]	(196) [d]	98.6	114 [d]	(263) [d]	21.9	(296) [a]
Cheese (kilograms)	..	(3.9)	4.7	..	..	31	..
Butter (kilograms)	..	(7.4)	10.9	2.2	5.4	1.2	..
Animal fats (kilograms)	..	(6.1)	4.7	21.9 [e]	7.1	0.9	..
Vegetable fats and oils (kilograms)	12.9	(9.3)	2.3	3.4	5.8	7.1	7.1
Fish and fish products (kilograms)	4.3	(5.2)	8.0	2.3	6.8	3.9	15.0
Coffee (decagrams)	..	(86)	230	210	..	..	..
Tea (decagrams)	..	(9)	9.1	7.2	31.5	..	..
Wine (litres)	..	(14.6)	5.4	40.0	6.4	11.3	..
Hard liquor (litres)	..	(5.9) [f]	6.7	6.0 [f]	3.9 [a]	2.3	..
Beer (litres)	..	(140)	107.3	59.0	35.5	24.0	..
Textiles, clothing, shoes (per inhabitant)							
Cotton fabrics (metres)	(20.9)	2.7	..	..	22.1	15.0	21.4 [g]
Woollen fabrics (metres)	(3.7)	0.9	..	..	2.5	1.7	2.9 [g]
Other fabrics (metres)	..	1.2	..	..	4.4 [h]	2.1	..
Ready-made clothing (pieces)	(8.7)	2.2	..	..	..	..	1.9
Footwear (pairs)	(1.8)	4.5	1.9	..	4.2	2.7	3.0
Durable manufactured goods (per 1000 inhabitants)							
Radio receivers (sets)	20	31	68	52	33	19	24
Television receivers (sets)	17	20	23	21	24	14	27
Washing machines (units)	9	26	15	14	14	6	13
Sewing machines (units)	6	7	3	4	4	4	5
Vacuum cleaners (units)	9		17	13	12	..	6
Refrigerators (units)	21	18	26	24	16	8	18
Bicycles (units)	10	19		24	16	..	17
Motor-cycles, scooters (units)	2	3	10	9	3	..	4
Motor-cars (units)	5	7	7	5	3	11	
Watches (units)	75	53	..	51	..	..	116
Furniture (national currency units)	..	337	..	..	..	173 [i]	135 [i]

Sources: as for table 4.1.

NOTES.— Figures refer to 1972—except for bracketed figures for Bulgaria (1971) and Czechoslovakia (1970).

Information on cotton, woollen, etc., fabrics excludes the materials sold in the form of ready-made clothing.

For food and beverages per capita consumption, for consumer manufactures per capita consumption or retail trade.

[a] Only sales.

[b] Boned meat and entrails.

[c] Kilograms.

[d] Milk and milk products in milk equivalent.

[e] Animal fats of all kinds.

[f] Converted into 40 per cent alcoholic content for Czechoslovakia and 50 per cent alcoholic content for Hungary.

[g] Square metres.

[h] Silk and rayon.

[i] Per inhabitant.

5. FOREIGN TRADE

(i) General features

In eastern Europe[88] the total trade turnover (expressed in current prices),[89] went up in 1973 by 19 per cent as compared with 11 per cent in 1972. For the region as a whole, exports and imports are estimated to have gone up by some 20 and 18 per cent respectively (see table below). Compared with 1972 this meant a considerable increase in the above growth rates. In contrast with 1972, exports in 1973 grew somewhat faster than imports. The trade deficit reappeared in the first, but was reversed in the second year into a small surplus.

A part of the above expansion was due to price increases in the world markets. However, data on this subject are very scarce and at this stage only estimates of the above increases are possible. Estimates are based on four pieces of information. Hungary provides some information on the subject—see table on p. 152. Prices in the Soviet Union's trade increased by 3.7 per cent. A decision stands that prices in intra-CMEA trade should not change during the 1971-1975 period. Finally, United Nations monthly bulletins of statistics (December 1973) indicate that changes in prices between the first three quarters of 1972 and 1973 of market economies' exports of primary commodities and manufactured products increased by 34.4 and 14.2 per cent respectively. A rough weighting of all these elements suggests that the prices of east European countries' exports to and their imports from market economies (expressed in foreign trade accounting units) may have gone up in 1973 by some 14 and 17 per cent respectively. This and other information suggests that there was a deterioration in the terms of trade of east European countries (about the same extent as in Hungary indicated in the table on p. 152). Expressed in constant prices, total exports and imports to CMEA countries may have gone up in 1973 by roughly 13.7 and 12.7 per cent respectively as compared with estimates of 7.3 and 10.6 per cent respectively for 1972. Since the growth of output accelerated even more, elasticity of imports (measured in volume terms) went down from 2.12 in 1972 to 1.79 in 1973 but that of exports went up from 1.46 to 1.93.

Table 5.1 indicates that in 1973 exports of Romania, followed by those of the Soviet Union, Hungary and Poland grew at the faster rate. The fastest rate of growth of imports was recorded by Poland, followed by Romania, Czechoslovakia and the Soviet Union. Imports grew faster than exports in Poland, Czechoslovakia and, probably, in the German Democratic Republic. These countries thus increased their import surplus or reduced their export surplus. Only Hungary and Romania increased their export surpluses substantially. Table 5.2 shows that the above expansion was concentrated on imports from and exports to industrial market economies.

Data on the commodity composition of trade are rather scarce. However, data in table 5.3, partner country statistics and information on output and demand suggest that the expansion in 1973 may have been led by imports of machinery, durable consumer goods and foodstuffs (imports of intermediate products also went up a great deal), and for exports by machinery followed by metal

The growth of trade of east European countries [a]

Period	Value in million current dollars		Annual percentage change			
			In current prices			
	Exports	Imports	Exports	Imports	National income	Industrial output
1970	30 915	30 156	11.2	14.4	8.0	8.5
1971	33 728	32 689	9.1	8.4	6.1	7.7
1972	39 896	40 276	9.0	13.3	5.0	7.0
Plan 1973	..	..	10.0		6.3	6.6
Estimate 1973	55 700	55 283	19.6	18.3	7.1	8.0
Plan 1974	..	..	11.7		7.1	7.6

[a] See footnote *a* to table 5.1. Individual country changes have been weighted on the basis of their trade in current years expressed in 1971 dollars.

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[88] In this section eastern Europe includes the Soviet Union unless otherwise stated.

[89] See footnote *a*, table 5.1.

Changes in prices of Hungarian imports and exports

	Imports						*Exports*					
	Total		*Centrally planned economies*		*Market economies*		*Total*		*Centrally planned economies*		*Market economies*	
	1972	*1973*	*1972*	*1973*	*1972*	*1973*	*1972*	*1973*	*1972*	*1973*	*1972*	*1973*
Total	2.4	6.3	2.2	1.0	2.9	17.5	1.6	5.0	0.4	1.7	4.6	13.1
Foodstuffs	–0.3	32.2	0.5	4.6	–0.8	46.3	9.1	12.5	3.0	8.3	16.6	17.0
Basic materials	3.9	4.8	4.1	0.2	3.5	12.5	–2.4	5.4	–0.6	0.0	–5.5	14.6
Machinery	1.2	2.4	0.1	1.0	4.9	6.7	1.3	1.0	1.4	0.9	0.6	1.3
Consumer goods	1.1	2.4	0.3	1.5	4.3	6.2	–0.9	1.4	–2.1	–0.3	2.8	6.4

Source: Monthly bulletin of statistics.

goods and, in eastern Europe other than the Soviet Union, also by agricultural products. This reflected an acceleration of capital formation and consumers' income and an increasing stress in their economic policies on the modernization of industries and the concern for a better equilibrium on domestic consumers' markets. Both necessitated a strong support by borrowing abroad. Outputs of foodstuffs, metal-using sectors and chemicals went up relatively fast while at the same time specialization expanded rapidly in all these sectors. Foreign demand was conducive to trade, especially that in western Europe.

(ii) Trade among east European countries

Even though the rate of growth of trade among east European countries slowed down somewhat in 1973 it was, nevertheless, high (roughly 11 per cent as compared with 11.5 per cent in 1972). Four major factors dominated the expansion of this trade. First, the Soviet Union's exports to other east European countries increased fast, eliminating thus a large deficit incurred in 1972. Secondly, the German Democratic Republic and Czechoslovakia, which managed considerable surpluses in their trade with east European countries in the preceding years, allowed their imports to grow fast in 1973. Thirdly, the Soviet Union's deliveries of industrial materials helped towards a better utilization of capacities in other east European countries. For instance, the volume of its deliveries of petrol was stepped up by 12 per cent and of natural gas from 3.5 billion cubic metres in 1972 to 5 billion in 1973. Fourthly, the trade in machinery which accounts for almost 50 per cent of mutual trade increased fast. For instance, Soviet orders for machinery in CMEA countries were, on 1 January 1973, 20 per cent higher than on 1 January 1972 and those of CMEA countries in the Soviet Union were 30 per cent higher. These two flows account for more than 60 per cent of mutual trade in machinery. An increasing part of machinery was supplied on credit to the projects being built in the Soviet Union by joint efforts. They are intended to ensure supplies of fuels and other industrial materials for the region as a whole.

Also, widening of intra-regional co-operation continued to be conducive to trade, although the major impact will be felt in the year to come. Recently the emphasis has centred on the joint construction of capacity in energy and basic materials. Moreover, specialization in engineering, improvement in credit mechanism, the co-ordination of national plans for 1976-1980 and joint planning of foreign trade have also been given increasing attention.

The risk of an energy crisis led to a number of decisions concerning output and mutual energy supplies (principally oil and gas). The present position is indicated by table 5.4. The region depends relatively little on external sources of energy supplies. It has been announced recently that energy prices in intra-regional trade will remain unchanged until the end of 1975. Thus, most likely there will be no major disturbances in the short run in payments balances of these countries. Oil supplies from the Soviet Union are expected to increase at a steady rate (they went up from 60 million tons in 1972 to 68 million tons in 1973) and those of natural gas to be stepped up—from 3.4 billion cubic metres in 1972 to 4.9 billion in 1973 and 10 billion in 1975. Poland is to increase its deliveries of coal, the output of which is planned to go up by 10 per cent in 1974. In the long run, the emphasis is on joint prospecting and building of new capacities (mostly oil in Komi Republic and gas in Orenburg in the Soviet Union, but also coal in Poland). The most important project under construction in this field is the Orenburg 1,700-mile-long gas pipeline. With its completion the Soviet Union's deliveries of gas to east European countries will rise to 30 billion cubic metres per year.[90] It has also been agreed to build eleven nuclear power stations (8 million kilowatts) which should contribute to the regional energy balance.

Important joint projects are under construction in some other fields: in steel-making (the Kursk combine in the Soviet Union 10-12 million tons capacity), the production of asbestos (the Kiembaev combine in the Soviet Union 500,000 tons capacity), copper (Poland and Bulgaria), sulphur (Poland), potassium, salt (the German Democratic Republic) and cellulose (the Ust-Ilimsk combine in the Soviet Union 500,000 tons capacity). Partner countries participate in investments with deliveries on credit of equipment and building materials but the home country remains the owner of projects. Repayments of credits will be made in kind, at fixed prices, with options

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[90] See also the note on the fuel situation in this SURVEY.

Table 5.1

Changes in the value of foreign trade and the volume of national income and industrial output, in east European countries (including the Soviet Union)

(Value in millions of current dollars and percentage change over corresponding period of previous year) [a]

Country and period	Value in million $		Percentage change			
	Exports	Imports	Exports	Imports	National income	Industrial output
Bulgaria						
1971	2 181	2 099	8.9	15.7	7.0	9.0
1972	2 603	2 548	10.0	11.0	8.0	8.3
Plan 1973	..	..	—— 13.2 ——		8.0	9.9
Actual 1973	3 401	3 294	12.7	11.7	8.7	10.6
Plan 1974	..	..	—— 8.5 ——		10.0	11.0
Czechoslovakia						
1971	4 180	4 009	10.2	8.5	5.1	6.7
1972	4 915	4 662	8.3	7.1	5.9	6.8
Plan 1973	5 210	5 273	6.0	13.1	5.1	5.7
Actual 1973	7 077	6 886	8.8	16.9	5.2	6.8
Plan 1974	..	..	..	..	5.2	5.8
German Democratic Republic						
1971	5 088	4 972	10.8	2.8	4.5	5.6
1972	6 200	5 920	12.2	9.2	5.7	6.3
Plan 1973	..	..	—— 14.0 ——		5.7	6.5
Actual 1973	..	..	—— 14.8* ——		5.5	6.8
Plan 1974	..	..	—— 10.0 ——		5.4	6.7
Hungary						
1971	2 500	2 990	7.9	19.3	6.5	7.0
1972	3 291	3 154	21.2	−2.9	5.1	5.0
Plan 1973	3 554	3 406	7.0	7.0	4-5	5.5-6.0
Actual 1973	4 472	3 958	18.0	9.0	6.5-7	7.2
Plan 1974	..	..	—— 8-10 ——		5.0	5.5-6.0
Poland						
1971	3 872	4 038	9.1	11.9	8.1	8.3
1972	4 927	5 329	17.1	21.4	10.1	10.7
Plan 1973	5 563	6 400	12.9	20.1	7.9	9.7
Actual 1973	6 635	8 200	17.1	33.8	ca.10.0	11.6
Plan 1974	7 829	10 004	18.0	22.0	9.5	11.1
Romania						
1971	2 101	2 103	13.5	7.3	12.8	11.7
1972	2 599	2 616	14.0	14.7	10.0	11.7
Plan 1973	3 428	3 066	31.9	17.2	9.8	14.7
Actual 1973	3 868	3 628	29.2	20.4	10.8	14.7
Plan 1974	5 391	4 803	39.4	32.4	14.6	16.7
Soviet Union						
1971	13 806	12 478	7.9	6.4	5.6	7.7
1972	15 361	16 047	2.5	18.4	3.9	6.5
Plan 1973	..	..	—— 7.9 ——		6.0[b]	5.8
Actual 1973	23 065	22 627	24.4	16.6	6.8[b]	7.4
Plan 1974	..	..	—— 10.0 ——		6.5[b]	6.8

Sources: national statistics, plans and plan-fulfilment reports.

[a] The absolute values in current dollars are obtained by applying the official exchange rates used for statistical purposes (see United Nations, *Monthly Bulletin of Statistics*, February 1972 and November 1973). The percentage changes are derived directly from national series expressed in national accounting units. The same procedure has also been followed in tables 5.2 and 5.3.

[c] Income distributed.

for continuing deliveries once credits are repaid. An increasing part of these projects is now financed by the CMEA International Investment Bank (IIB). So far, it has granted close to 850 million (current) dollars credits, of which 45 per cent were in 1973 alone. It is at present participating in the financing of 33 projects, all of them highly relevant for regional co-operation.

The speeding up of co-operation in the engineering industry is dictated by the fast increase in the needs for research which is costly, the need to reduce costs of expensive electronics and energy machinery (especially those for atomic power stations), and by the fact that engineering accounts for close to 50 per cent of mutual trade. So far, 16 multilateral and several dozen bilateral agreements have been signed for specialization and co-operation in this field. A new step forward has recently been made by the setting up of three associations: Intertextilmach and Interatomenergo which are independent units financed by their own income, and Interelectro which will be financed by contributions from member states. These associations will have considerable authority in textiles, atomic energy and electric engineering on matters of research, planning, output, sales, servicing, technical assistance and investments.

An office for the joint planning of trade has recently been established in CMEA. It is responsible for working out regional plans based on existing specialization and co-operation agreements and the decision arising from the co-ordination of national plans (1976-1980) which is under way. The increasing importance of deliveries based on mutual specialization schemes necessitates large short-term credits and intensified planning. The CMEA International Bank for Economic Co-operation (IBEC) is asked to provide such credits; so far they have amounted to only 7 per cent of the settlements in transferable roubles.

(iii) Trade between east European and western industrialized countries

The growth of trade between east and west European countries continued to speed up in 1973 (January-September). Measured in current dollars, west European imports from eastern Europe increased in 1973 by 36 per cent (14 and 17 per cent respectively in 1971 and 1972 as a whole) and its exports to that area by 42 per cent (8 and 27 per cent respectively in 1971 and 1972). A large part of the growth was due to increases in prices, which were faster in 1973 than in 1972. However, growth speeded up also in volume terms: west European imports from eastern Europe are estimated to have increased in 1973 by some 11 per cent (as compared with a very moderate increase in 1972) and their exports to that area by some 20 per cent (some 13 per cent in 1972 as a whole).

Most major western partners shared in this expansion of trade, especially France, the Federal Republic of Germany, the United Kingdom, Finland and Sweden. On the eastern side, the major participants in the expansion of imports were Poland, the Soviet Union and Romania. The fastest export growth was that of the Soviet Union, followed by that of Hungary and Poland.

Table 5.5, which includes seven west European countries, shows the commodity composition of more than 70 per cent of east-west trade. It indicates that (in terms of national currencies) machinery and food showed the fastest rate of growth in west European imports from east European countries (mostly from east European countries other than the Soviet Union). It also shows that food (mostly to the Soviet Union) and manufactured products other than machinery were the most dynamic west European exports to east European countries. Thus, the tendency for manufactured products to increase their share of east European exports to western Europe continued. In absolute terms, however, the largest contribution to west European imports came from basic materials (predominantly from the Soviet Union) and food (from east European countries other than the Soviet Union), and to west European exports from machinery and other manufactured products. These trends in current values were affected by relative price changes, which were highest in the case of crude materials and foodstuffs.

Conditions for the growth of east-west European trade improved in 1973. There was a speeding up of the growth of demand in western Europe and of supplies (except for foodstuffs in the Soviet Union) in eastern Europe. A particular point in this context was the continuation of beef shortage in western Europe and the stepping up of animal slaughter in eastern Europe. Further stimula to east European exports came from food prices in western Europe, which increased beyond Common Market intervention level, and from prices of basic materials quoted in dollars which more than offset the dollar devaluation. Industrial co-operation contributed increasingly to this trade (for instance, it accounts already for 20 per cent of Hungarian exports of machinery to this area). Credits from the west were increasingly forthcoming, which corresponded to the intensification of modernization of industries in eastern Europe. The Soviet Union alone placed orders in western Europe for plant and equipment to the amount of $460 million in 1971 and $1.3 billion in 1972.

Trade with overseas industrial countries continued to be the most dynamic flow in the trade of east European countries (for imports this was the case for the fourth year in succession). Measured in current dollars, imports of these countries from eastern Europe increased in January-September 1973 by 67 per cent (compared with 27 per cent in the whole of 1972) and their exports to them by 74 per cent (75 per cent in 1972 as a whole). Obviously, this implies considerable increases in volume terms also. In recent years this trade has been dominated by the United States. Its imports from eastern Europe rose by 43 per cent in 1972 and 63 per cent in 1973 (12 months), and in the latter year reached $519 million. Its exports to that area more than doubled in both years and in 1973 reached nearly $1.8 billion. Most of this was in trade with the Soviet Union (some $1.4 billion in the whole of 1973) followed by that with Poland (some $450 million). In the first nine months of 1973 Japanese imports from eastern Europe grew fast (79 per cent, as compared with 19 per cent in the whole of 1972) but its exports declined by 3 per cent (following an increase of 37 per cent in 1972). Canadian trade with eastern regions continued to grow fast.

TABLE 5.2

Trade developments in east European countries (including the Soviet Union)

(Percentage changes in the values of exports and imports and trade balances in million dollars)

Country and period	World			East European countries			Rest of the world			Of which: industrial market economies [a]		
	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance
Bulgaria												
1972	10.1	11.0	55	12.6	14.5	62	2.5	1.1	−7	7.8	9.6	−103
1973 [b]	13.5	15.0	23	10.8	13.3	31	23.1	22.1	−8	26.6	39.3	−115
Czechoslovakia												
1972	8.3	7.1	253	12.8	10.0	221	0.8	3.1	−32	12.1	9.1	−134
1973	8.8	16.9	192	7.3	12.9	103	11.4	24.8	89	32.6	26.2	−39
German Democratic Republic												
1972	12.2	9.2	280	15.5	5.7	682	5.8	18.0	−402	13.9	26.4	−402
1973	—— 14.8* ——		. .	—— 11.0 ——		. .	—— 23.0* ——		. .	31.6	18.2	−203
Plan 1974	—— 10.0 ——		. .	—— 10.0 ——		. .	—— 10.0 ——		. .	. .	. .	. .
Hungary												
1972	21.2	−2.9	137	22.9	−3.1	171	21.0	−2.4	−34	33.6	10.3	101
1973	18.0	9.0	514	15.0	5.0	456	24.0	18.0	58	33.7	26.3	−108
Plan 1974	—— 8-10 ——		. .	6-7	20.0	Minus	10-13	10-13	. .	. .	. .	. .
Poland												
1972	17.1	21.4	−402	19.4	10.5	−113	14.5	42.8	−289	23.9	55.2	−312
1973	17.1	33.8	−1 565	12.4	12.0	−131	24.5	65.6	−1 434	37.0	85.4	−805
Romania												
1972	14.0	14.7	−17	13.2	11.4	62	14.1	18.2	−79	26.9	31.5	−268
1973	29.2	20.4	240	—— 10.5* ——		. .	—— 39.8* ——		. .	32.9	38.9	−295
Soviet Union												
1972	2.5	18.4	−686	3.2	17.7	−1 159	1.9	25.2	473	11.5	44.9	−773
1973	24.4	16.6	438	—— 9.1 ——		. .	—— 37.2 ——		. .	47.9	50.3	−780
Total above												
1972	9.0	13.3	−380	11.5	11.5	—	5.6	18.6	−380	16.6	32.8	−2 093
1973 (estimated value)	19.6	18.3	417	11.0	11.0	—	—— 32.8 ——		417	38.9	45.0	−2 345
1973 (estimated volume)	10.7	13.8	—	10.0	10.0	—	—— 15 ——		—	14.1	21.3	—

Source: National statistics, plans and plan-fulfilment reports except for industrial market economies.

[a] 9 months for 1973; both 1972 and 1973 in current dollars as quoted by OECD, *Overall trade by countries*, Series A.

[b] 9 months.

TABLE 5.3

Commodity composition of trade of selected CMEA countries

(Percentage changes in trade values)

Country and period	*Exports*					*Imports*				
	Total	*Machinery*	*Intermediate goods*	*Food*	*Consumer goods*	*Total*	*Machinery*	*Intermediate goods*	*Food*	*Consumer goods*
Bulgaria										
1972	10.0	22.4	9.7	3.4	1.9	11.0	18.6	8.0	−30.4	14.8
1973 (9 months) . .	13.5	26.5	8.0	4.6	10.7	15.0	11.2	15.6	69.0	7.0
Czechoslovakia										
1972	8.3	8.4	5.5	4.8	13.2	7.1	9.5	8.5	−2.7	6.7
1973	8.8	5.0	13.9	7.8	10.2	16.9	25.4	13.2	8.0	18.0
Hungary										
1972	21.2	28.1	20.8	17.5	18.0	−2.9	−9.0	2.2	−12.2	−5.3
1973	18.0	19.0	22.0	25.0	7.0	9.0	−5.0	12.0	16.0	26.0
Poland										
1972	17.1	16.0	12.8	36.3	14.7	21.4	37.0	13.8	−1.5	31.4
1973 (11 months) .	17.1	17.5	14.9	17.5	21.2*	33.8	41.8	26.7	41.0	13.1*

Sources: national statistics, plan-fulfilment reports.

Trade between eastern Europe and overseas industrial countries was boosted by grain shortages in the Soviet Union, United States credits and the fact that east European countries were newcomers in these markets. Table 5.6 indicates that all major groups of commodities in the United States exports to and imports from eastern Europe grew rapidly. However, food dominated United States exports, contributing 78 per cent to the increment in 1972 and 74 per cent in (January-August) 1973. (Grains contributed 75 and 62 per cent respectively and wheat alone 35 and 59 per cent respectively.) The contribution of machinery was small although rising: 3 and 10 per cent in 1972 and (January-August) 1973 respectively. Excluding wheat, United States exports rose in 1972 and January-August 1973 by 75 and 85 per cent respectively. In the expansion of United States imports from eastern Europe, the participation of major commodity groups was more evenly distributed but that of fuel and manufactured goods other than machinery was the largest. Shifts occurred also in east European trade with Canada and the pattern was similar to that of the United States. Shifts in the structure of Japanese trade with east European countries were considerable in 1972 (especially in favour of exports of machinery and imports of manufactured goods other than machinery) but moderate in 1973. The Soviet Union placed orders for machinery in Japan amounting to $138 million in 1971 and to $155 million in 1972.

The main feature of the above trade expansion was a rapid increase in eastern Europe's trade deficit. In trade with all industrial market economies it amounted during January-September 1973 to $2,345 million [illegible] compared with $2,093 million in 1972 as a whole.[91] It was financed primarily by inter-government or inter-bank credits intended for specific projects or as an aid to the balance of payments (some $1.7 billion were mentioned by the Press in 1972, 1973). Since 1973, Romania can borrow from the IMF (some $100 million in 1973). Soviet sales of gold, which were virtually nil during 1966-1971, reached some $250-300 million in both 1972 and 1973. Finally, borrowing in the Euro-dollar market accelerated. This led to the increase in the debt outstanding of east European financial institutions of close to $400 million in 1970 and $660-670 million in both 1971 and 1972. The deficit has persisted over a number of years, its cumulative size amounting during 1968-1973 to roughly $7 billion. Since a part of it was financed by credits, eastern Europe's external debt must have increased considerably. The Soviet Union's debt service ratio (repayment of principal plus interest relative to earnings of hard currency) is estimated at 19 per cent in 1972 ($563 million) and has gone up in 1973. In Poland, at the present rate of borrowing, this ratio may reach 25 per cent in 1975. In most of the other east European countries it is less than this, but is above 10 per cent and is rising.

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[91] The deficit in the trade with west European countries alone amounted during January-September 1973 to $1,352 million as compared with $1,119 million in 1972. Certain west European countries had a deficit in this trade: United Kingdom in 1973 (January-September) $285 million (1972 as a whole $195 million), Italy $267 million ($213 million), Finland $51 million. Most other countries had an export surplus: in January-September 1973, Federal Republic of Germany $1,321 million ($1,067 million), France $300 million ($300 million), Sweden $81 million ($5 million), Switzerland $134 million ($140 million).

TABLE 5.4

East European countries' exports and imports of energy material in 1972

Sector	*Bulgaria*	*Czechoslovakia*	*German Democratic Republic*	*Hungary*	*Poland*	*Romania*	*Soviet Union*	*Total*
Crude oil and oil products (in million tons)								
Exports								
Total	0.06	1.02	2.3	1.4	1.7	5.1	107.0	118.6
To CMEA	—	—	—	—	0.5	0.05	48.9	49.5
Imports								
Total	10.6	13.6	15.4	6.8	12.0	2.9	9.0	70.3
From CMEA	8.4	12.9	11.8	5.5	11.6	0.3*	0.8	51.3
Percentage from CMEA	79.2	94.9	76.7	80.9	96.7	10.4	8.9	73.0
Balance								
Total	−10.5	−12.6	−13.1	−5.4	−10.3	2.2	98.0	48.3
With CMEA	−8.4	−12.9	−11.8	−5.5	−11.1	−0.2	48.1	
Gas (billion m³)								
Exports								
Total	—	—	—	—	—	0.2	5.1	5.3
To CMEA	—	—	—	—	—	0.2	3.5	3.7
Imports								
Total	—	1.9	0.1	0.2	1.5	—	11.0	14.7
From CMEA	—	1.9	0.1	0.2	1.5	—	—	3.7
Percentage from CMEA	—	100.0	100.0	100.0	100.0	—	—	25.2
Balance								
Total	—	−1.9	−0.1	−0.2	−1.5	0.2	−5.9	−9.4
With CMEA	—	−1.9	−0.1	−0.2	−1.5	0.2	−3.5	
Coal (million tons)								
Exports								
Total	—	3.3	—	0.3	32.7	—	24.4	60.7
To CMEA	—	1.7	—	—	15.4	—	14.5	31.6
Imports								
Total	5.8	5.5	7.6	1.7	1.2	0.8	9.7	32.3
From CMEA	5.8	5.5	7.3	1.3	1.2	0.8	9.7	31.6
Percentage from CMEA	100.0	100.0	96.1	76.5	100.0	100.0	100.0	97.8
Balance								
Total	−5.8*	−2.2	−7.6	−1.4	31.5	−0.8	14.7	28.4
With CMEA	−5.8*	−3.8	−7.3	−1.3	14.2	−0.8	4.8	

Source: national statistics.

NOTE.— The sign minus represents import surplus.

The growth of this debt has brought to the fore the problem of the costs at which credits are obtained. The Romanians have recently pointed out that the interest alone has made the equipment which they imported on credit at least 15 per cent dearer. In 1973 interest rates rose considerably as a result of anti-inflationary policies. East European countries consider bearable only loans granted for more than 10 years and at 6 per cent interest, i.e. the rate at which the Export-Import Bank in Washington lends. The rate of 6.5 per cent, charged by the Japanese semi-official Export-Import Bank has been one of the major obstacles in the Soviet Union-Japanese negotiations concerning Siberian projects. Western commercial banks prefer eight-year terms for loans and floating interest rates set at a negotiated percentage above an easily ascertainable market interest rate. Such rates may go up to even 9 or 11 per cent, especially for countries which have large trade surpluses (such as the Federal Republic of Germany) and do not need to subsidize credits in order to stimulate exports. During the recent session of the Soviet-Federal Republic of Germany Economic Commission it was stated that credits should

TABLE 5.5

The commodity composition of selected west European countries' exports to and imports from eastern Europe (including the Soviet Union)

Country	*Imports c.i.f.*					*Exports f.o.b.*				
	Total	*Food, beverages and tobacco*	*Basic materials*	*Manufactured products excluding machinery*	*Machinery and equipment*	*Total*	*Food*	*Basic materials*	*Manufactured products excluding machinery*	*Machinery*
France										
1972 millions of national currency .	4 101	769 [a]	1 446	1 404	482	5 674	916 [a]	225	2 170	2 363
1972 percent. change	16.3	20.5	−10.3	53.1	17.8	17.7	94.5	19.8	17.6	2.7
1973 Jan.-June percentage change . .	17.5	21.3	23.7	20.9	−16.7	28.3	167.4	100.0	30.4	−15.1
Federal Republic of Germany										
1972 millions of national currency .	5 323	1 190	2 188 [b]	571 [c]	1 229 [d]	7 660	443	463 [b]	1 918 [c]	4 807 [d]
1972 percent. change	11.7	5.8	7.1	7.1	26.1	31.5	11.9	20.2	13.0	45.1
1973 Jan.-Sept. percentage change . .	16.3	9.6	18.4	20.4	21.6	43.4	61.6	54.3	82.2	26.3
Italy										
1972 billions of national currency .	646	259 [a]	203	155	29	458	31 [a]	10	221	196
1972 percent. change	17.0	28.9	7.0	22.3	20.8	−0.4	10.7	0.0	2.4	−3.9
1973 Jan.-June percentage change . .	20.1	31.5	11.1	4.0	50.0	7.1	−6.7	75.0	9.5	3.3
United Kingdom										
1972 millions of national currency .	396	52	100	221	23	276	7	26	133	110
1972 percent. change	13.1	−6.7	1.1	18.4	35.3	9.1	6.7	20.6	6.9	11.0
1973 Jan.-Oct. percentage change . .	47.2	1.6	48.1	56.2	61.1	20.9	82.9	−17.9	23.7	13.5
Austria										
1972 billions of national currency .	10.3	1.9	5.0	2.5	0.9	10.6	0.2	0.8	6.6	3.0
1972 percent. change	7.2	33.5	−3.5	4.7	50.9	9.5	−26.6	8.3	10.3	14.6
1973 Jan.-June percentage change . .	11.3	9.2	7.3	25.1	−2.8	17.0	44.8	9.1	14.7	23.5
Finland										
1972 millions of national currency .	2 044	47	1 427	386	184	1 839	172	201	1 015	451
1972 percent. change	−3.0	−59.1	−14.0	8.2	23.5	32.9	48.3	0.5	42.2	32.6
1973 Jan.-Sept. percentage change . .	22.8	43.3	14.3	41.1	44.8	14.8	0.0	22.6	0.6	52.9
Sweden										
1972 millions of national currency .	1 708	137	727	712	132	1 565	95	287	607	576
1972 percent. change	−0.7	−4.2	−9.6	18.1	−16.5	−1.6	19.5	11.3	2.8	−11.4
1973 Jan.-Oct. percentage change . .	22.9	29.3	15.1	21.0	68.2	50.3	46.7	−12.7	47.8	52.5

Sources: national statistics.

[a] Agriculture.

[b] All inputs.

[c] Finished but not final goods.

[d] Final goods.

TABLE 5.6

The commodity composition of the United States, Canada and Japan's exports to and imports from eastern Europe (including the Soviet Union)

Country	*Imports*					*Exports*					
						Food, beverages and tobacco					
	Food, beverages and tobacco	*Basic materials*	*Manufactured products excluding machinery*	*Machinery and equipment*	*Total*	*Total*	*Cereals and grains*	*Basic materials*	*Manufactured products excluding machinery*	*Machinery and equipment*	*Total*
United States											
1972 million $	77	42	183	19	321	470	417	171	74	103	818
1970 increase in percentage .	10.7	21.4	16.7	33.3	16.4	48.1	3.2	119.7	7.4	3.0	42.5
1971 increase in percentage . .	−3.2	−26.5	5.0	8.3	−1.8	71.4	178.1	−36.6	4.1	29.0	8.5
1972 increase in percentage . .	28.3	68.0	46.4	46.2	43.9	256.1	368.5	101.2	−2.6	15.7	114.1
Jan.-Aug. 1973 increase in percentage	23.1	100.0	57.1	75.0	54.7	256.5	245.4	157.5	63.8	149.2	201.2
Canada											
1972 million $	5	2	81	11	99	313	312	20	11	11	355
1970 increase in percentage . .	66.7	−57.1	−5.6	16.7	−5.7	1 583.3	1 583.3	57.1	−33.3	0.0	419.2
1971 increase in percentage . .	−20.0	−33.3	23.5	42.9	19.7	28.7	30.6	0.0	0.0	100.0	23.7
1972 increase in percentage . .	25.0	0.0	52.8	10.0	25.3	140.8	143.8	−4.8	37.5	37.5	112.6
Jan.-June 1973 increase in percentage	40.5	115.6	17.6	29.6	27.3	26.1	26.1	84.0	3.8	−4.2	25.4
Japan											
1972 million $	34	463	176	20	693	1	—	13	422	299	735
1970 increase in percentage . .	26.3	2.2	−1.2	37.5	3.0	0.0	0.0	−11.1	33.6	27.8	29.3
1971 increase in percentage . .	12.5	7.3	−34.0	9.1	−1.5	—	—	0.0	14.4	38.7	20.4
1972 increase in percentage . .	25.9	16.0	35.4	−16.7	21.6	0.0	0.0	−18.7	20.6	73.8	36.9
Jan-Apr. 1973 increase in percentage	. .	45.0 *	52.0 *	60.0 *	56.0	0.0	0.0	. .	−25	−19.6	−23.0

Sources: national statistics.

be extended at terms as favourable as possible. In fact, this means that credits at preferential rates should be granted (by semi-official banks and/or others in which the Government owns certain shares) when the projects of common interest are involved (the development of energy resources and the output of industrial materials for instance).

Numerous efforts are now being made to prevent the balance of payments from becoming an obstacle to future rapid growth of east-west trade. The principal ones only will be mentioned here. First, credits extended by western countries are increasingly linked to specific projects in east European countries and the repurchase of their future products.[92] It is estimated that such financing contributed in 1973 some 20 per cent of the Soviet Union's repayment of long-term and medium-term debt. Secondly, an increasing number of organizations take an interest in export promotion. Thirteen western commercial banks now have their representative offices in Moscow. They are active in establishing contacts between businessmen, in the exchange of information on export capacities and in raising finance for certain projects. In western Europe there are some 15 east European banks and affiliates. They encourage joint ventures, leasing of equipment[93] and participate in western currency and security markets. In 1972 CMEA banks borrowed $200 million in western markets. Furthermore, fourteen United States firms have received permission to open offices in Moscow, and a United States Government commercial office will soon be established there. Especially important events in 1973 were the setting up of the joint Soviet-American Trade and Economic Council (with an office in New York and another one in Moscow), a joint US-Romanian Economic Commission (an intergovernmental body) and US-Romanian and US-Bulgarian Economic Councils. They should encourage long-term contracts between companies. Thirdly, intergovernmental and intercompany co-operation agreements increasingly stress industrial co-operation (which for the moment contribute less than 10 per cent of east-west trade) and joint ventures[94] (Romania has already managed several of them). Finally administrative obstacles to east-west trade continued to be reduced. Most of the above intergovernmental agreements provide for MFN treatment and the elimination of quantitative restrictions (or a promise to this effect). Hungary, Poland and Romania may expect increasing benefits from their GATT membership.

(iv) Review by country[95]

In *Bulgaria* the growth of exports and imports speeded up in 1973 to 12.7 and 11.7 per cent respectively. The fastest growth was achieved in trade with industrial market economies. Bulgaria continued with the policy of maintaining a slight surplus in its over-all trade but a moderate deficit in that with industrial market economies. The growth of exports was dominated by machinery and consumer goods. Their outputs have become highly specialized and grew in 1973 by 19 and 9 per cent respectively. Imports of foodstuffs followed by industrial materials grew at the fastest rate. This was in line with the campaign to improve consumers' standards and supplies of inputs to industry and reflects price changes in the world market. The Plan for 1974 expects a considerable slow-down in the rate of growth of total trade, but a substantial acceleration in that with CMEA countries.

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[92] Examples of such credit links have been quoted in the *Economic Bulletin for Europe*, vol. 25. Among the new ones the following are particularly illustrative: Montedison of Italy will deliver to the Soviet Union (during 1974-1978) seven chemical plants against future sales of their products (500,000 tons of ammonia per year over ten years). Some French companies granted $200 million credit for the construction of a petro-chemical complex in the Soviet Union against deliveries of future products. Finland has granted a credit of 150 million Finnish marks for the construction of a mining project in the Soviet Union (capacity 2.7 million tons of pellets in 1978 and 8 million tons in 1981) against future deliveries of pellets. A consortium in the Federal Republic of Germany (led by Krupp) will participate in investments in a steel-mill at Kursk in the Soviet Union (the total cost of which amounts to $2.2 billion —of which German credit may be $850 million—to be completed in 10 years) which will supply the consortium with pellets. Five major projects are being negotiated between the Soviet Union and Japan: coal output in South Yakutsk, natural gas output in Yakutsk (capacity 10 billion cubic metres of liquified natural gas a year each to Japan and the Soviet Union), the trans-Siberian railroad (4,350 miles long—to be used for resource development), the Tyumen pipeline to Nakhodka (4,136 miles long) together with oil storage and shipping facilities and the project for Soviet electricity supply to Japan. It is estimated that all these projects will require a $10 billion credit of which 50 per cent will be extended by Japan and repaid by deliveries of respective products. An agreement is being negotiated for deliveries of natural gas from Iran to the Soviet Union and an equivalent counter-delivery of the Soviet Union to the Federal Republic of Germany, with necessary investments and servicing to be paid by Iran. An earlier agreement expects other Soviet deliveries of gas to the Federal Republic of Germany to reach, by 1979, 7 billion cubic metres annually which will be paid for by exports of tubes. A proposal stands for a similar scheme between Iran, the Soviet Union and Japan.

[93] There are two companies—Crédit Lyonnais of Paris and Morgan Grenfel of London in partnership with the Soviet banks in western Europe—specializing in leases. The advantage is that the equipment is fully financed before it is leased and can be put into place and used more rapidly than if more conventional financing were employed.

[94] The scope and the extent of intergovernmental co-operation agreements has been explained in the *Bulletin*, vol. 25. It quotes the existence in the second half of 1973 of 67 such (identified) agreements. Recently, the German Democratic Republic, following the establishment of diplomatic relations with west European countries, concluded a few more.

There has been a speeding up in the number of intercompany agreements. For instance, during the first half of 1973 Hungary concluded 19 such agreements (of which 10 were in engineering); up to 1973, Czechoslovakia signed 23 agreements and in 1973 Romania concluded or discussed 4 joint ventures. An important example of the activity in this field is the Soviet Union's Committee for Science and Technology which has so far signed co-operation agreements with 11 United States corporations and a number of others in west European countries. Its five-year agreement with Monsanto provides for joint research and ventures in the production of various chemicals such as synthetic rubber, fertilizers, fibres, etc. Its 10-year agreement with the Control Data Corporation provides for joint efforts in designing computers, information systems and soft-ware, as well as the Soviet participation in production (the deal may be worth $500 million over the next five years). Its five-year agreement with American Food Machinery Corporation provides for joint efforts in the development of farm machinery, agro-industrial complexes and food industry (especially soft drinks). Its three-year agreement with LURGI Company in the Federal Republic of Germany in the sphere of the chemicals and metallurgy industries provides for the exchange of scientific and technical information, mutual delegation of specialists, joint industrial research and exchange of know-how. Another example is the agreement with the Romanian Government recently signed with the United States Company ITT for industrial and commercial co-operation in telecommunications, electronic and electromechanical parts, industrial products, consumer products and publishing.

[95] Growth rates referred to in this section are in terms of foreign trade accounting units except for trade with industrial market economies which are expressed in current dollars.

In 1973 *Czechoslovakia* broke with a tradition of a slower increase in imports than in exports (they went up by 16.9 and 8.8 per cent respectively). The reversal came after the debts contracted in CMEA countries during 1968-1969 had been repaid and when larger credits became available in western countries, prices, credits and demand conditions resulting in trade with industrial market economies growing fastest. The most rapid increase took place in the export of intermediate goods and consumer goods, following a rapid growth of output of these sectors. Imports of machinery and consumer goods were most dynamic since investments in machinery rose very fast and the growth of population income speeded up. A similar policy will be pursued in 1974 and rates of growth of exports and imports in volume terms may remain unchanged.

In the *German Democratic Republic*, total trade is estimated to have gone up in 1973 by some 15 per cent and imports alone by more than that. The fastest growth was recorded in trade with industrial market economies, implying a sharp acceleration in German exports to, and a slower increase in imports from them. The German deficit in this trade was reduced considerably. Trade with developing countries grew by 22 per cent, most of it representing the recovery of the ground lost in 1972. Following the build-up of a large surplus in trade with east European countries in the two preceding years, German imports from them ought to have speeded up sharply in 1973 and its exports to them slowed down a great deal. Output statistics suggest that the fastest growth may have taken place in exports of chemicals, machinery and consumer goods and demand statistics indicate that imports of capital goods and consumer goods may have gone up fastest. The Plan for 1974 expects a decline in the rate of growth of trade but an even growth of trade by major regions.

In *Hungary*, a certain export surplus was needed to repay credits and raise foreign currency reserves but its size (some 4 per cent of net material product) was affected by current demand. (Exports and imports rose in 1973 by 18 and 9 per cent respectively.) Economies were concentrated as in 1972 on the growth of investments, with the result that exports of capital goods continued to grow rapidly while imports continued to decline. Exports were further helped by a rising output of intermediate products, a good harvest and by the fact that, despite the revaluation of the forint, prices remained higher abroad than at home. Speeding up of private consumption and an improvement in supplies of industrial inputs led to a rapid increase in imports of these goods (in 1972 they had either grown little or declined). Exports to and imports from market economies increased at the fastest rates. Debt repayments and lagging demand for investment goods necessitated a rising surplus in trade with CMEA countries, while credits permitted a slight increase of the deficit in the trade with industrial market economies. In 1974 the growth of exports may slow down and that of imports speed up. The Plan expects the elimination of the surplus in the trade with east European countries but a moderate deficit may continue in that with industrial countries. This will permit the revival of investments and the rebuilding of stocks.

For the third year in succession, *Poland* borrowed abroad on an increasing scale (its exports and imports rose in 1973 by 17 and 34 per cent respectively). This was necessitated by speeded modernization of industries and the need to sustain market equilibrium. Imports of machinery (including durable consumer goods) grew at the fastest rate followed by that of foodstuffs. Expanding industrial co-operation and rising prices made imports of intermediate products speed up. Exports of all major groups of products increased fast as a follow-up of the modernizations, good harvests and improvements in marketing. Credits were obtained predominantly in industrial market economies which resulted in Polish imports from them rising fastest (as in 1972). Polish exports to this area also grew at the fastest rate, largely because of sales of foodstuffs. In 1974, Poland intends to reduce the disparity between the rates of growth of its exports and imports in order to slow down the growth of foreign debt. Exporters will enjoy special credit facilities and profit margins larger than dealers on the domestic market.

In *Romania*, exports and imports accelerated and reached in 1973, 29 and 20 per cent respectively. Policy aimed at reducing the debt with CMEA countries and slowing down the increase in debt in western industrial countries. The stress was on trade with industrial market economies. Machinery and agricultural products were the most dynamic exports helped by a considerable increase in output. It seems that machinery and intermediate products were the fastest growing imports, following the very rapid growth of industry and investments. The Plan for 1974 expects exports and imports to grow by some 40 and 33 per cent respectively and those paid in convertible currency by 76 and 51 per cent respectively. The export surplus should more than double, most of it being in convertible currency. This is necessitated by the need to raise currency reserves, accelerate the repayment of debt in western countries and avoid high cost credits in the west. Imports from east European countries will be raised sharply in order to reduce the payments problems of other partner countries.

In the *Soviet Union* the growth of trade was calculated in 1973 to be 20.3 per cent in value terms but 16 per cent in volume terms. Soviet exports increased faster than its imports. This led to a switch from a deficit in 1972 to surplus in 1973. The Soviet Union's trade with industrial market economies grew at the fastest rate: imports were sustained by co-operative schemes and setbacks in agriculture which necessitated large purchases on credit of machinery and grains (some 14.8 million tons in 1972/73 agricultural year). Exports were helped largely by rising prices of intermediate products. Since the Soviet deficit with industrial market economies continued to increase substantially, it appears that its deficit in trade with CMEA countries in 1972 was reversed into a surplus in 1973 and the surplus with developing countries increased further. The fastest expansion in exports took place in intermediate goods followed by a 15 per cent increase in machinery. Imports of food products grew at the fastest rate followed by a 16 per cent increase in machinery. The Plan for 1974 expects a substantial decline in the rate of growth of trade. The Soviet imports from the United States may decline a great deal now that the need to import wheat has ceased.

6. THE 1974 NATIONAL PLANS

According to targets set in the national plans for 1974, the over-all expansion in the area as a whole is to be maintained at a rate of 7.1 per cent, the same as that attained in 1973.[96] The dispersion of over-all growth rates has been widened, due mainly to differentiated national growth policies.

Countries such as Hungary, the German Democratic Republic and Czechoslovakia have planned their over-all growth in line with the policy of consolidation (more balanced economic development) and have kept their growth rates in close association with the five-year planned targets. Hungary has planned its expansion at a considerably lower rate (5 per cent) than that attained in 1973 (6.5-7 per cent). However, thanks to a successful consolidation of the economy in 1972 and 1973 and to a high export surplus realized in 1973, which will permit an import surplus in 1974, the increase in consumption—and particularly in investment—has been set at a rate exceeding the over-all growth rate. A slight deceleration in over-all growth is planned in the German Democratic Republic as a follow-up of the policy aiming at "improving the general economic proportions". The 5.4 per cent rate of over-all growth, however, exceeds the current five-year plan rate. In Czechoslovakia, growth in 1974 is planned at the 5.2 per cent rate already attained in 1973. The main concern of policy makers is the improvement of "qualitative aspects of growth". Such a policy is based largely on the fact that domestic supplies of basic materials, power and fuel, and to some extent of labour, do not meet the requirements of an accelerated expansion.

The Soviet Union is in the middle position with regard to growth policies. The performance in 1973 exceeded the expectations of the planners: the actual rate of over-all growth (6.8 per cent) was higher than that envisaged in the annual plan (6 per cent). Expansion in 1974 is planned at a 6.5 per cent growth rate, indicating an acceleration in relation to the planned growth in 1973 but a modest deceleration in relation to the 1973 actual rate. Special attention is to be given to technical progress and higher labour productivity as factors contributing to over-all growth. Improvement of the economic structure has been reported as another major policy objective.

Accelerated growth is planned in Bulgaria and Romania. In Bulgaria the increase in over-all growth is to be not less than 10 per cent in 1974. A faster expansion of industry and a significant increase in agricultural production are the main factors contributing to these developments. Emphasis is also to be put on "improving qualitative economic indicators".

The excellent results reported in industrial expansion and in foreign trade during the past year had a decisive bearing on the acceleration in over-all growth in Romania. The 1974 Plan provides for a continuation of this policy: the planned over-all growth is to increase by 14.6 per cent. The fast increase of industry and foreign trade and the even more spectacular increase in agriculture are the main factors behind this accelerated expansion.

In Poland, the planned rate of over-all growth (9.5 per cent) considerably exceeds the planned five-year target and is in line with the developments of the two preceding years. The Polish economy has been in full swing, thanks to the favourable interaction of the high increase of domestic production and additional resources provided by imports. In order to maintain these developments, policy makers have emphasized three key issues in 1974: the strengthening of the monetary and market equilibrium, the efficient and disciplined implementation of the investment programme and the rapid growth in foreign trade.

Albania has not been included in the analysis of the economic situation of the area in the previous sections of this chapter.[97] The general impression, based on scarce information, is that a slow-down in over-all growth occurred both in 1972 and 1973 in relation to previous years. The rate of industrial growth in both years was 9.5 per cent and the estimated growth of agriculture in 1973 was about 7 per cent. Due to the production structure of the country's economy—the dominant position of agriculture and the high priority given to the development of industry—the rate of over-all growth could not have exceeded 7.5 per cent, which is below the annual and the five-year plan targets. For 1974 the rate of over-all growth has been planned, as in 1973, at 11 per cent. The main factor contributing to this acceleration is agriculture (the planned rate of growth is 27 per cent). By contrast, industrial expansion is to increase at the comparatively moderate rate of 7.6 per cent, which is significantly below the recorded achievements in past years.

The *investment* plans for 1974 seem to be set in accordance with the development policies of all countries of the area. The Soviet Union and Hungary have planned an increase in investment expansion and Romania plans to continue a powerful investment drive. Poland and the German Democratic Republic, by contrast, plan for a reduced rate of investment expansion. However, in the case of Poland, the rate is still very high (11.8 per cent.)

A policy aiming at the concentration of investment resources is incorporated in all the annual plans. Top priority is given to the completion of investment projects in progress. Some of the annual plans contain the share of investment allocated to that purpose as a planned target. In Poland, only 20 per cent of investment resources may be destined for new investment projects. In the Soviet Union, 70 per cent of centralized investment resources is to be used for the completion of selected unfinished projects.

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[96] Tables in the earlier sections of this chapter include the targets of the 1974 Plans to the extent that these have been expressed in quantitative terms. The respective rates of growth set in the current five-year plans ending in 1975 are included also.

[97] The only exception being that on industry.

The modernization and reconstruction of obsolete capacities and enterprises is another priority in investment policies. Emphasis is on the application of modern and advanced technology and, particularly, of complex mechanization and automation. For instance, the annual plan in Bulgaria provides for no less than one-third of the total investment to be used for modernization and reconstruction. All the plan documents include a special section devoted to technical progress. Considerable attention is paid to the improvement of the quality of products and the assimilation of the results of scientific and technical progress.

As far as new investment projects are concerned, most plans refer to investment in power and fuel, consumer-goods production and export oriented branches. In some countries, high priority is given to investment in the chemicals and engineering industries. Some annual plans refer to priorities concerning the regional allocation of investment resources. The annual plan in the Soviet Union provides for intensive investment in comprehensive development of natural resources in the eastern regions. In Bulgaria, the plan provides for an additional allocation of investment resources in less developed districts.

The 1974 plan targets for *industrial production* are more ambitious than those for 1973. Nevertheless, in comparison with the actual performance in 1973, the rate of industrial growth is to accelerate only in Bulgaria and Romania. In both these countries, the planned rates are among the highest—11 and 16.4 per cent respectively. Only Poland has planned such a high growth rate, which slightly exceeds 11 per cent. In other countries of the area, industrial growth is to decelerate. This is true for the industrial growth in the area as a whole, due to planned slower growth in the Soviet Union.

The pattern of the planned industrial expansion in 1974 is broadly the same as that of the preceding year and, with a few exceptions, also of the current five-year plans. The most detailed output targets have been published for power and fuel producing branches. Production of consumers' manufactures is often referred to as a priority objective. In some countries, for instance, in Bulgaria, additional resources are allocated in order to speed up the production in light and food-processing industries. The chemicals and engineering industries are expected to lead industrial expansion in most countries. In Romania, for instance, the chemicals industry as a whole is to increase by 36.3 per cent (within this industry, fertilizers are to increase by 51 per cent). In Bulgaria, the chemicals industry is planned to increase by 27 per cent and engineering by 21 per cent. In other countries of the area, the growth rates in these industrial branches are among the highest in industry, although much lower than those mentioned above.

After the good results in *agriculture* achieved in 1973, countries such as Czechoslovakia, Hungary, Poland and the Soviet Union have planned for a slower growth in 1974. The most moderate growth rate has been planned in Hungary (2 to 2.5 per cent). The three other countries have envisaged an expansion at the rate of about 4 per cent. On the other hand, in the German Democratic Republic, Romania and Bulgaria, agricultural production in 1973 registered the same or slightly higher expansion than in 1972, which was for all these countries a year of bumper harvests. The 1974 Plans envisage a significant acceleration, particularly in Romania where the growth rate has been set at 27 per cent.

In all countries an important part of investment is again to be channelled into agriculture with emphasis on animal production, particularly on investment in the building of modern installations for cattle-breeding, pig-raising and poultry production. But in Czechoslovakia priority has been given to more intensive expansion of crop production. Top priority is to be given to the development of fodder production and especially to the development of fodder-processing capacities. Important investment means are also to be allocated for the expansion of vegetable production, based on the application of modern and advanced cultivation methods. Special attention is paid to land reclamation programmes. In the Soviet Union, investment outlays in agriculture are expected to account for 27 per cent of total investment.

It appears from national plans that the *trade* of east European countries may increase in 1974 between 11 and 12 per cent. This is a considerable slow-down in comparison with the growth rate of about 17 per cent achieved in 1973. It seems that planners, expecting a considerable slackening in market economies, may have assumed a slower price increase in 1974 than in 1973, in which case the slow-down in the growth of trade in volume terms in 1974 would not be as sharp as that mentioned above. The trade turnover in real terms increased in 1973 by roughly 10.5 per cent.

All countries apart from Romania have planned a slower growth of trade in 1974. The planned slow-down is especially pronounced in the targets for trade turnover of the Soviet Union, the German Democratic Republic, Hungary and for imports of Poland and, most probably, of Czechoslovakia.

The plans contain very little about prospects for east European countries' trade with different regions. It may be assumed, however, that the major slowing down will take place in their imports from industrial market economies and, to a lesser extent, in their exports to them. Following the excellent harvest in 1973, the Soviet Union's need to import wheat from the United States, Canada and Australia has ceased. Its imports of other cereals and machinery will only partly compensate for the difference. All east European countries will endeavour to slow down the increase in their trade deficits with industrial market economies, mainly by limiting the growth of imports. The growth of east European exports to this region may slow down also. First, the demand in western markets may slacken and, secondly, exports of east European countries in 1973 have been stimulated by price increases.

The economic activity expected in 1974 does not suggest *per se* any need for the slow-down in the volume of trade growth. The output of sectors especially relevant to trade, such as machinery, chemicals and metals, are expected to grow rather fast and at only a slightly lower rate than in 1973. Output of consumer goods may increase at an even faster rate than in 1973. It can be expected that the expansion of exports will rest primarily on these products. In most countries, investments are expected to grow faster than in 1973 which will stimulate imports of machinery.

Attempts are being made not to strain bilateral balances which would affect mutual trade. Some countries, such as Czechoslovakia, the German Democratic Republic, Hungary and Romania, intend either to eliminate or substantially reduce their surpluses in 1974. This will give rise to exports of other countries which intend to repay some of their short-term debts.

APPENDIX

Output of selected industrial products in eastern Europe and the Soviet Union

Product and country	*1966-1970 average*	*1971*	*1972*	*1973 Plan*	*1973 actual*	*1974 Plan*	*1975 Plan (Five-year)*
Electric power (billion kWh)							
Bulgaria	15.5	21.0	22.2	. .	21.9	. .	30
Czechoslovakia	41.0	47.2	51.4	. .	53.5	56.7	. .
German Democratic Republic	62.6	69.4	72.8	75.2	76.9	80.7	. .
Hungary	13.2	15.0	16.3	. .	17.6	. .	. .
Poland	55.8	69.9	76.5	. .	84.3	91.5	. .
Romania	28.0	39.5	43.4	48.5	46.7	51.5	. .
Soviet Union	640.2	800.4	858.0	915.0	915.0	975.0	1 065
Byelorussian SSR	12.1	18.5	21.0	22.5	23.0	26.0*	. .
Ukrainian SSR	118.2	150.0	158.3	172.0	172.0	185.6	. .
Coal [a] (million tons)							
Bulgaria	27.9	27.0	27.3	. .	28.8	. .	. .
Czechoslovakia	103.0	113.5	113.4	. .	109.0	. .	. .
German Democratic Republic	252.2	263.7	249.3	. .	246.2	. .	. .
Hungary	23.2	27.4	25.8	. .	26.8	. .	. .
Poland	157.7	180.0	188.9	. .	195.8	. .	. .
Romania	17.5	22.9	23.3	27.3	24.8	27.3	. .
Soviet Union	601.4	640.9	655.2	665.3	668.0	679.1	695
Byelorussian SSR	—	—	—	—	—	—	—
Ukrainian SSR	200.2	209.5	211.2	212.6	213.0	215.5	. .
Oil (million tons)							
Bulgaria	0.41	0.31	0.25	. .	0.19	. .	. .
Czechoslovakia	0.20	0.19	0.19	. .	. .	. .	. .
German Democratic Republic	—	—	—	—	—	—	—
Hungary	1.78	2.0	2.0	. .	2.0	2.0	. .
Poland	0.44	0.40	0.35	. .	. .	. .	. .
Romania	13.19	13.79	14.13	14.2	14.29	14.4	. .
Soviet Union [b]	308.8	377.1	400.4	430.0	429.4	458.0	496
Byelorussian SSR	1.94	5.30	5.8	. .	7.0	7.7	. .
Ukrainian SSR	11.94	14.30	14.5	13.9	14.1	13.2	. .
Natural gas (billion m³)							
Bulgaria	0.40	0.33	0.22	. .	0.22	. .	. .
Czechoslovakia	1.12	1.22	1.17	. .	. .	. .	. .
German Democratic Republic	. .	2.80	5.00	7.0	. .	8.3	. .
Hungary	2.60	3.71	4.09	. .	4.8	5.3	. .
Poland	2.92	5.38	5.82	. .	6.03	6.9	. .
Romania	17.31	21.36	22.29	23.3	23.2*	25.10	. .
Soviet Union	169.7	212.4	221.4	238.0	236.4	257.0	320
Byelorussian SSR	—	0.3	0.4	. .	. .	. .	. .
Ukrainian SSR	39.5	64.7	67.2	66.9	68.2	. .	67
Pig iron (million tons)							
Bulgaria	1.06	1.38	1.57	. .	1.61	. .	. .
Czechoslovakia	6.91	7.96	8.36	. .	8.53	9.00	. .
German Democratic Republic	2.28	2.03	2.15	. .	2.20	. .	. .
Hungary	1.71	1.97	2.04	. .	2.08	. .	. .
Poland	6.72	7.50	7.82	. .	8.14	. .	. .
Romania	3.07	4.38	4.89	. .	. .	. .	. .
Soviet Union	78.3	89.3	92.3	96.2	95.9	. .	. .
Byelorussian SSR	. .	. .	. .	. .	. .	. .	. .
Ukrainian SSR	46.2	42.0	43.1	43.4	43.5	44.8	. .

Output of selected industrial products in eastern Europe and the Soviet Union *(continued)*

Product and country	*1966-1970 average*	*1971*	*1972*	*1973 Plan*	*1973 actual*	*1974 Plan*	*1975 Plan (Five-year)*
Crude steel (million tons)							
Bulgaria	1.34	1.95	2.12	. .	2.25	. .	. .
Czechoslovakia	10.39	12.06	12.73	. .	13.16	13.90	. .
German Democratic Republic	4.58	5.35	5.67	. .	5.89	. .	. .
Hungary	2.89	3.11	3.27	. .	3.33	. .	. .
Poland	10.88	12.74	13.48	. .	14.06	. .	. .
Romania	4.91	6.80	7.40	8.0	8.16	8.63	. .
Soviet Union	106.4	120.7	125.6	130.7	131.0	135.9	146.0
Byelorussian SSR	0.2	0.21	0.2	0.2	0.2	. .	. .
Ukrainian SSR	44.0	47.4	49.2	50.9	51.0	52.2	. .
Finished roll steel (million tons)							
Bulgaria	0.95	1.75	2.02	. .	2.09	. .	. .
Czechoslovakia	7.31	8.32	8.71	. .	9.17	9.60	. .
German Democratic Republic	3.37	3.55	3.71	. .	. .	3.55	. .
Hungary	1.91	2.06	2.22	. .	2.3	. .	. .
Poland	7.33	8.72	9.22	. .	9.87	10.45	. .
Romania	3.44	4.76	5.23	. .	. .	. .	. .
Soviet Union	73.6	84.1	87.5	91.5	91.4	95.2	103.0
Byelorussian SSR	—	—	—	—	—	—	—
Ukrainian SSR	31.1	33.4	34.1	35.3	35.4	. .	. .
Mineral fertilizers (thousand tons) [c]							
Bulgaria	394	452	442	. .	440 *	. .	. .
Czechoslovakia	552	648	678	. .	687	. .	. .
German Democratic Republic	2 984	3 248	3 296	. .	. .	3 290	. .
Hungary	405	552	555	. .	. .	. .	. .
Poland	1 227	1 786	1 910	. .	2 175	2 365	. .
Romania	635	1 082	1 200	. .	. .	. .	. .
Soviet Union	10 371	14 670	15 900	. .	17 400	. .	21 300
Byelorussian SSR	1 577	2 654	2 900	3 200	3 300	. .	. .
Ukrainian SSR	2 040	2 625	2 800	. .	3 000	3 200 *	. .
Sulphuric acid (thousand tons)							
Bulgaria	437	514	514	. .	561	. .	. .
Czechoslovakia	1 023	1 162	1 176	. .	1 209	. .	. .
German Democratic Republic	1 048	1 076	1 045	. .	1 058	. .	. .
Hungary	433	468	567	. .	648	. .	. .
Poland	1 417	2 252	2 568	. .	2 914	. .	. .
Romania	781	1 047	1 162	. .	. .	. .	. .
Soviet Union	10 397	12 775	13 685	. .	14 800	. .	. .
Byelorussian SSR	344	663	. .	. .	. .	. .	. .
Ukrainian SSR	1 980	2 674	3 059	3 266	3 339	. .	. .
Caustic soda (thousand tons)							
Bulgaria	42.8	50.1	67.4	. .	75.8	. .	. .
Czechoslovakia	180	202	212	. .	. .	. .	. .
German Democratic Republic	396	414	420	. .	. .	. .	. .
Hungary	56.9	73.9	81.8	. .	83.0	. .	. .
Poland	284	319	335	. .	337	. .	. .
Romania	286	344	380	. .	. .	. .	. .
Soviet Union	1 532	1 866	1 899	. .	2 000	. .	. .
Byelorussian SSR	—	—	—	—	—	—	—
Ukrainian SSR	181	222	222	. .	222	. .	. .
Plastic and resins (thousand tons)							
Bulgaria	61.2	106	123	. .	144	. .	. .
Czechoslovakia	200	270	301	. .	355	. .	. .
German Democratic Republic	306	420	458	. .	. .	. .	. .
Hungary	40.7	82.6	100	. .	112	. .	. .
Poland	164	257	299	. .	333	387	. .
Romania	135	251	274	313	. .	416	. .
Soviet Union	1 300	1 864	2 042	. .	2 300	2 532	. .
Byelorussian SSR	. .	. .	. .	. .	. .	. .	. .
Ukrainian SSR	. .	. .	. .	. .	. .	. .	. .

Output of selected industrial products in eastern Europe and the Soviet Union *(continued)*

Product and country	*1966-1970 average*	*1971*	*1972*	*1973 Plan*	*1973 actual*	*1974 Plan*	*1975 Plan (Five-year)*
Synthetic and artificial fibres (thousand tons)							
Bulgaria	0.92	28.3	34.1	40.6	43.6	..	..
Czechoslovakia	91.0	108.8	116.5	..	124.8	..	..
German Democratic Republic	196.7	211.1	231.6	..	253.1	..	..
Hungary	9.0	10.3	11.7	..	14.1	..	..
Poland	123.0	150.9	162.2	..	177.9	194.5	..
Romania	53.6	95.4	99.7	117.3	116.0	165.6	..
Soviet Union	546	676	746	..	830	..	1 065
Byelorussian SSR	47.2	85	101.7	130	134.5	..	..
Ukrainian SSR	58.4	77	88.9	108.7	101	..	..
Cement (million tons)							
Bulgaria	3.5	3.9	3.9	..	4.2	..	..
Czechoslovakia	6.6	8.0	8.0	..	8.4	9.1	..
German Democratic Republic	7.3	8.5	8.9	..	9.6	10.4	..
Hungary	2.7	2.7	3.0	..	3.4	..	..
Poland	11.3	13.1	14.0	..	15.5	17.4	..
Romania	7.0	8.5	9.2	11.6	9.8	12.0	..
Soviet Union	87.4	100.3	104.3	..	109.5	114.9	125.0
Byelorussian SSR	1.9	1.9	1.95	..	1.99	..	..
Ukrainian SSR	15.7	17.8	18.7	19.3	20.2	21.4 *	..
Paper (thousand tons)							
Bulgaria	173	215	218	..	223	..	..
Czechoslovakia	585	614	627	..	644	..	..
German Democratic Republic	685	731	735	..	..	..	..
Hungary	240	269	290	..	319	..	..
Poland	686	839	899	..	941	..	..
Romania	366	447	457	583	..	659	..
Soviet Union	3 991	4 407	4 613	4 800	4 900	5 023	5 560
Byelorussian SSR	98	122	139	..	158	..	..
Ukrainian SSR	180	193	201	..	213	..	..
Metal cutting machine tools (thousands)							
Bulgaria	11.5	14.6	17.3	..	65.9	..	..
Czechoslovakia	32.3	39.6	36.8	..	..	..	..
German Democratic Republic	24.4	19.6	21.3	..	..	..	..
Hungary	15.3	16.0	14.1	..	..	..	..
Poland	30.7	33.1	36.3	..	36.3	..	..
Romania	11.5	15.1	16.1	..	..	..	..
Soviet Union	199.5	207.2	211.3	..	211	..	240
Byelorussian SSR	26.1	29.2	30.4	..	31.3	30.5	..
Ukrainian SSR	28.2	30.9	32.5	..	32.8	..	..
Tractors (thousands)							
Bulgaria	2.9	4.7	4.1	..	4.0	..	..
Czechoslovakia	23.7	21.8	22.3	..	24.0	..	..
German Democratic Republic	13.9	15.2	8.3	..	..	..	..
Hungary	2.7	1.6	1.2	..	1.1	..	..
Poland	31.1	41.2	45.0	..	49.6	53.5	..
Romania	22.3	30.4	34.9	37.3	38.8	43.5	..
Soviet Union	422.2	472.0	477.8	..	500.0	..	..
Byelorussian SSR	78.5	81.1	81.8	81.5	82.9	83.0	..
Ukrainian SSR	137.1	149.2	125.5	..	127.0	..	..
Electric and diesel locomotives (units)							
Bulgaria	—	—	—	—	—	—	—
Czechoslovakia	643	582	496	..	..	..	..
German Democratic Republic	555	480	381	..	..	..	..
Hungary	55	29	46	..	..	..	..
Poland	411	380	378	..	..	..	..
Romania	181	266	286	287	311	322	..
Soviet Union	1 877	1 826	1 839	..	1 754	..	..
Byelorussian SSR	..	..	..	..	..	..	..
Ukrainian SSR	1 419	1 390	1 395	..	1 323	..	..

Output of selected industrial products in eastern Europe and the Soviet Union *(continued)*

Product and country	*1966-1970 average*	*1971*	*1972*	*1973 Plan*	*1973 actual*	*1974 Plan*	*1975 Plan (Five-year)*
Railway freight wagons (thousands)							
Bulgaria	1.80	2.02	1.88	..	..	..	..
Czechoslovakia	4.32	4.69	5.22	..	..	..	..
German Democratic Republic	4.80	5.37	4.43	..	..	..	..
Hungary	0.44	0.33	0.69	..	0.90	..	..
Poland	14.26	16.37	16.88	..	16.47	..	..
Romania	9.10	12.39	11.1	..	..	..	..
Soviet Union	48.12	63.67	68.9	..	71.8	..	..
Byelorussian SSR	..	..	..	..	..	..	..
Ukrainian SSR	22.9	33.5	37.2	44.0	39.1	..	..
Motor lorries (thousands)							
Bulgaria	1.9 [c]	3.3	3.3	..	..	..	..
Czechoslovakia	21.7	25.1	25.6	..	28.4	..	..
German Democratic Republic	22.7	25.5	26.8	..	..	..	..
Hungary	3.6	3.6	4.0	..	..	..	..
Poland	36.0	46.3	50.3	..	56.9	..	..
Romania	25.8	35.2	36.1	36.2	34.9	33.0	..
Soviet Union	470.4	564.3	596.8	..	629.0	..	..
Byelorussian SSR	27.3	30.9	31.9	32.5	32.8	33.6	..
Ukrainian SSR	25.1	30.8	32.4	..	34.3	..	..
Passenger motor-cars (thousands)							
Bulgaria	5.1 [d]	8.1	8.2	..	10.6	..	..
Czechoslovakia	121.0	149.0	154.5	..	164.4	168.0	..
German Democratic Republic	116.0	134.3	139.6	..	147.0	..	..
Hungary	—	—	—	—	—	—	—
Poland	40.8	85.1	89.9	..	113.0	142.5	..
Romania	12.1	29.6	38.5	47.2	47.2	52.5	..
Soviet Union	279.9	529.0	730.1	..	917.0	..	1 260
Byelorussian SSR	..	..	..	..	..	..	..
Ukrainian SSR	72.0	91.5	96.4	..	106.6	..	..
Television sets (thousands)							
Bulgaria	148	158	102	..	73.8	..	..
Czechoslovakia	300	352	268	..	381	..	..
German Democratic Republic	435	445	544	..	454	..	..
Hungary	332	371	350	..	353	..	..
Poland	537	631	730	..	796	..	..
Romania	182	300	324	395	397	450	..
Soviet Union	5 678	5 814	5 980	..	6 300	..	..
Byelorussian SSR	457.8	525	375	..	454.1	..	..
Ukrainian SSR	1 320	1 903	2 143	..	2 100	..	..
Radio sets (thousands)							
Bulgaria	155	148	141	..	71	..	..
Czechoslovakia	313	385	249	..	226	..	..
German Democratic Republic	844	961	1 061	..	..	..	..
Hungary	238	215	193	..	199	..	..
Poland	780	892	982	..	1 149	..	..
Romania	393	484	527	600	623	670	..
Soviet Union	6 863	8 794	8 842	..	8 600	..	..
Byelorussian SSR	480	518	425	..	339	..	..
Ukrainian SSR	689	719	619	..	665	..	..
Domestic refrigerators (thousands)							
Bulgaria	90	140	151	..	..	..	..
Czechoslovakia	286	314	327	..	278	..	..
German Democratic Republic	377	411	442	..	469	483	..
Hungary	168	278	331	..	371	..	..
Poland	381	493	527	..	601	..	..
Romania	145	192	196	305	222	..	..
Soviet Union	3 180	4 557	5 030	..	5 400	..	..
Byelorussian SSR	137	277	416	..	488	520	..
Ukrainian SSR	425	500	544	..	584	..	..

Output of selected industrial products in eastern Europe and the Soviet Union *(continued)*

Product and country	*1966-1970 average*	*1971*	*1972*	*1973 Plan*	*1973 actual*	*1974 Plan*	*1975 Plan (Five-year)*
Domestic washing machines (thousands)							
Bulgaria	134	57	32	..	45	..	..
Czechoslovakia	244	309	273	..	208	..	..
German Democratic Republic	292	280	295	..	316	340	..
Hungary	155	162	139	..	137	..	..
Poland	442	332	489	..	517	..	..
Romania	117	131	141.5	..	..	..	..
Soviet Union	4 658	4 052	3 001	..	3 000	..	..
Byelorussian SSR	—	—	—	—	—	—	—
Ukrainian SSR	434	351	183	..	234	..	..
Vacuum cleaners (thousands)							
Bulgaria	—	—	—	—	—	—	—
Czechoslovakia	194	218	250	..	..	..	..
German Democratic Republic	444	527	475	..	..	..	..
Hungary	70.7	85.3	87.1	..	80.7	..	..
Poland	301	439	496	..	513	..	..
Romania	66.2	83.2	..	..	..	..	..
Soviet Union	1 219	1 718	2 168	..	2 700	..	..
Byelorussian SSR	—	—	—	—	—	—	—
Ukrainian SSR	276	366	472	..	637	..	..
Cotton fabrics (million m²)							
Bulgaria	276	287	289	..	296	..	..
Czechoslovakia [e]	487	524	537	..	547	..	..
German Democratic Republic	426	453	451	..	458	..	..
Hungary	325	306	312	..	346	..	..
Poland [e]	845	904	901	..	868	873	..
Romania	384	482	531	..	..	..	..
Soviet Union	6 019	6 397	6 421	..	6 577	..	..
Byelorussian SSR	55	102	111	..	115	..	..
Ukrainian SSR	223	246	250	..	279	..	..
Woollen fabrics (million m²)							
Bulgaria	33.5	39.2	38.4	..	40.1	..	..
Czechoslovakia [e]	46.3	52.7	55.3	..	55.9	..	..
German Democratic Republic	123	118	108	..	..	..	..
Hungary	38.5	40.7	38.3	..	38.1	..	..
Poland [e]	94.8	98.6	100.2	..	107.2	117.3	..
Romania	54.8	70	74	..	..	..	..
Soviet Union	581	675	681	..	703	..	..
Byelorussian SSR	32.2	36.0	36.9	..	38.2	..	..
Ukrainian SSR	47.7	69.7	70.1	..	72.4	..	..
Footwear (million pairs)							
Bulgaria	14.1	16.1	16.6	..	17.9	..	..
Czechoslovakia	94.8	106.6	109.9	..	99.0	..	..
German Democratic Republic	67.9	76.9	77.9	..	84.4	..	..
Hungary	31.9	37.8	37.2	..	41.2	..	..
Poland	95.0	108.5	118.6	..	119.8	130.7	..
Romania	58.4	71.5	79	87.1	85	95.5	..
Soviet Union	599.0	679.2	646.9	..	667	..	..
Byelorussian SSR	34.0	38.9	39.3	..	40.4	..	..
Ukrainian SSR	123.2	153.4	149.9	..	154	..	..
Meat (thousand tons)							
Bulgaria	250	277	298	..	323	..	..
Czechoslovakia	643	773	821	..	..	..	..
German Democratic Republic	995	1 110	1 198	..	1 266	..	..
Hungary	362	494	528	..	..	..	..
Poland	1 363	1 472	1 761	..	2 005	..	..
Romania	405	418	489	655.2	583	713	..
Soviet Union	6 498	8 191	8 723	..	8 300	..	..
Byelorussian SSR	353	465	467	..	486	520 *	..
Ukrainian SSR	1 414	1 800	1 955	..	1 900	1 950 *	..

Output of selected industrial products in eastern Europe and the Soviet Union *(concluded)*

Product and country	*1966-1970 average*	*1971*	*1972*	*1973 Plan*	*1973 actual*	*1974 Plan*	*1975 Plan (Five-year)*
Butter (thousand tons)							
Bulgaria	13.7	14.2	14.4	..	14.5	..	..
Czechoslovakia	85.4	91.8	101.5	..	113.6	..	..
German Democratic Republic	213	225	249	..	250	..	..
Hungary	21.1	17.7	18.1	..	22.3	..	..
Poland	121	127.6	161.6	..	181.5	..	..
Romania	28.0	29.5	32.5	..	..	..	..
Soviet Union	1 013	1 022	1 081	..	1 200	..	..
Byelorussian SSR	59.8	64.6	71.3	..	81.9	..	..
Ukrainian SSR	251.3	265.9	280.7	..	329	..	..
Sugar (thousand tons)							
Bulgaria	345	356	283	..	..	..	..
Czechoslovakia	918	828	816	..	..	..	..
German Democratic Republic	571	589	662	..	..	..	..
Hungary	393	241	298	..	301	..	..
Poland	1 562	1 585	1 660	..	1 641	..	..
Romania	415	484	520	635	628	595	..
Soviet Union	10 203	9 025	8 903	..	10 700	..	..
Byelorussian SSR	155	201	192	..	320	..	..
Ukrainian SSR	5 903	5 479.1	5 579.4	..	6 200	6 690 *	..
Vegetable oils (thousand tons)							
Bulgaria	136	145	145	..	172	..	..
Czechoslovakia	124.8	136.2	138.6	..	..	..	..
German Democratic Republic	223	231	223	..	..	..	..
Hungary	43.5	60.4	80.1	..	..	..	..
Poland	186	224	224	..	..	..	..
Romania	259	308	315	320	328	327	..
Soviet Union	2 932	2 923	2 842	..	2 700	..	..
Byelorussian SSR	22.8	17.9	21.2	..	..	..	..
Ukrainian SSR	997	956	992	..	871	1 125 *	..
Fish catch (thousand tons)							
Bulgaria	55.8	97.1	103.2	..	97.6	..	..
Czechoslovakia	..	..	..	..	..	..	..
German Democratic Republic	284	318	311	..	..	..	..
Hungary	..	..	..	..	..	..	..
Poland	372	488	523	..	557	..	..
Romania	..	..	..	..	..	..	..
Soviet Union	6 855	7 845	8 210	..	..	..	..
Byelorussian SSR	7.4	9.3	10.1	..	..	..	..
Ukrainian SSR	699	858.3	914.4	..	914.4	..	..

Sources: national yearbooks, plans and plan-fulfilment reports.

[a] Hard coal, brown coal and lignite.

[b] Including liquefied petroleum gases.

[c] All mineral fertilizers in terms of pure content.

[d] Four-year average.

[e] Million metres.

RECENT ECE PUBLICATIONS

Recent publications by the ECE secretariat, in addition to the annual *Economic Survey of Europe* and the trade reviews contained in the *Economic Bulletin for Europe*, have included:

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Structural trends and prospects in the European economy
Economic Survey of Europe in 1969, Part I
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